Austria Sch 20	Indonesia Rp 2500	Portugal Esc 90	Bahrain Din 0.650	Italy L 1500	S. Arabia Rls 6.00
Belgium BFr 45	Japan Y550	Singapore S$4.10	Canada C$1.00	Jordan Fils 500	Spain Pta 125
Cyprus C£0.70	Kuwait Fils 500	Sri Lanka Rup 30	Denmark DKr 8.00	Lebanon L£ 75.00	Sweden SKr 7.00
Egypt E£1.00	Luxembourg LFr 45	Switzerland SFr 2.20	Finland Fmk 6.50	Malaysia Ring 4.25	Taiwan NT$ 65
France Fr 6.00	Mexico Pes 260	Tunisia Din 0.800	Germany DM 2.20	Morocco Dh 6.00	Turkey L
Greece Dr 80	Netherlands Fl 2.75	U.A.E. Dh 6.50	Hong Kong HK$12	Norway NKr 7.00	U.S.A. $1.00
India Rup 15	Philippines Pes 20				

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,932 — Monday May 19 1986 — D 8523 B

The nuclear choice still facing Gorbachev, Page 19

World news

Israel and Syria reduce tensions

Israel and Syria backed away from a new military confrontation, with both countries claiming that the recent tension between them was diminishing.

Mr Shimon Peres, the Israeli prime minister, said on US television that Israel did not intend to attack Syria and he did not see an imminent danger of war between the two countries. "I do not believe that Syria will attack Israel tomorrow morning," he added.

President Hafez Assad said the risks of confrontation appeared to be lessening. Neither Syria nor Israel had undertaken any unusual troop movements in recent days, he said in an interview. Page 3

Sri Lanka suffers renewed violence

Fighting among Tamil separatist rebels and the security forces in Sri Lanka claimed 17 lives as the Tamils claimed the army had launched an offensive to break the rebels' siege of the northern capital of Jaffna. Page 2

Channel bomb threat

Security measures were stepped up in ports in Britain, France, Belgium and the Netherlands after terrorist bomb threats. Cars were stopped and checked by police at ports throughout southern and eastern England before being allowed onto cross-Channel ferries.

Chernobyl effects

West German Chancellor Helmut Kohl criticised Soviet leader Mikhail Gorbachev for failing to offer compensation to the West for the effects of radioactive fallout from the Chernobyl nuclear reactor disaster. Page 3

Soviet jet shot down

A Soviet MiG-21 jet was shot down by two Pakistani F-16 aircraft while it was nine miles inside Pakistani territory after dropping four bombs near Parachinar, near the Afghan border. Page 3

Escape foiled

Police guards in Pau, in the French Pyrenees mountains, foiled an escape attempt by Guy Cantavenera, a man charged last year with the murder of a Basque refugee.

Talks on hostages

West Germany held talks with Nicaraguan rebel representatives to try to secure the release of eight West Germans kidnapped in northern Nicaragua.

Bangladesh polling

The pro-Government Jatiya Party widened its lead in Bangladesh's staggered parliamentary election after fresh polling in some areas that suffered violence this month.

Sudanese deaths

Makour Deshgai, a provincial Sudanese governor, and seven others were killed when a rocket fired by rebels shot down their aircraft at the south Sudanese town of Rumbek.

Attack 'beaten off'

Iran said its troops beat off an Iraqi invading force near the border city of Mehran and Iraqi troops were three miles from the city. Page 3

Apartheid warning

Indian Prime Minister Rajiv Gandhi appealed to all countries to increase pressure on South Africa to end apartheid, warning of an imminent bloodbath unless change came rapidly.

Arms cache find

South African police said they had uncovered, in a mineshaft, what they believed to be the biggest arms cache in the country's history.

Finnish strike ends

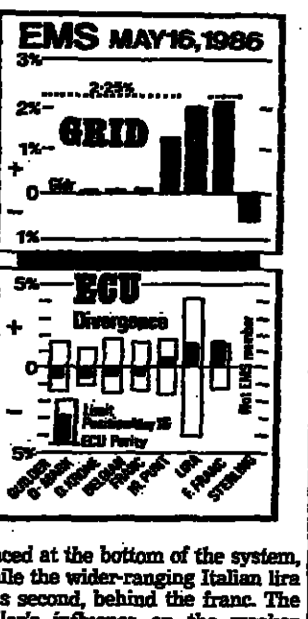
Finland's civil servants' strike ended at midnight on Saturday after the union's board of representatives voted 10-1 for a return to work.

Business summary

Target puts off market flotation

TARGET GROUP, the UK life assurance and unit trust company, has postponed indefinitely its stock market flotation, blaming the poor state of the London market. Page 20

EUROPEAN Monetary System: The French franc remained the strongest currency within the EMS last week although it was slightly easier against the D-Mark after a cut in French interest rates. The Belgian franc, Danish krone, D-Mark and Dutch guilder were still closely placed at the bottom of the system, while the wider-ranging Italian lira was second, behind the franc. The dollar's influence on the weaker currencies was marginal, with the US unit confined to its recent trading range as dealers tried to assess comments by US, West German and Japanese officials on the dollar's value.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

TOKYO share prices regained some earlier decline but the Nikkei index closed 65.02 lower on Saturday at 15,674.03, following the lower New York market.

ZURICH Stock Exchange intends to open a fifth trading floor by next spring, which will permit an extension in domestic equity trading. Page 21

FINLAND: Foreign ownership in Finnish shares will rise from 20 to 40 per cent of the shareholders' equity, while the maximum number of votes foreigners may hold in Finnish companies will remain at 20 per cent.

FRENCH unemployment rose by 1.7 per cent in April on a seasonally adjusted basis to 2.42m people. That leaves the total number of jobless only 1.1 per cent above the level of a year ago.

MEXICO'S central bank governor, Miguel Mancera, says he hopes his country will be able to agree with the IMF on the long-delayed rescue in a "matter of weeks." Page 2

BRITISH diplomatic missions' service to UK companies trading in Africa is severely criticised in a survey of businesses with African interests. Page 4

MONSANTO, US chemicals group that last year paid $2.8bn for G. D. Searle, a pharmaceuticals company, is to sell its US polystyrene business to Polysar, Canadian petrochemicals group. Page 20

NOMURA Research Institute, an arm of Japan's biggest securities firm, says radical rethinking is essential if Tokyo is to succeed as a world financial centre. Page 24

FIAT, Italian vehicle maker, re-enters the UK executive car market next month with the launch of its Croma model. Page 8

LEYLAND BUS, part of the BL state-owned vehicle group, which the Government wants to privatise, has attracted three firm bids. Page 8

Dutch election faces fallout from Chernobyl disaster

CHERNOBYL may have sounded the death knell for the Netherlands' centre-right government, writes Laura Raun in Amsterdam.

The Soviet nuclear disaster has become a rallying point for the opposition parties and threatens to deprive the Christian Democrat-Liberal coalition of its parliamentary majority in Wednesday's general elections. But the "fallout factor" is only the latest in a string of issues that have arisen after apparently being resolved.

Mr Ruud Lubbers, the Prime Minister, has adroitly led his country down the tricky path of nuclear energy expansion, cruise missile deployment and welfare-state pruning. His uncanny knack for compromise has won approval for at least two new nuclear reactors, 48 nuclear missiles and a leaner public sector – all without tarnishing his immense popularity.

But now the Dutch are indicating that they have had enough of nuclear power, US missiles and economic austerity. The most likely victims are the right-of-centre Liberals.

The most recent public opinion polls, published on Saturday, show the coalition parties falling two seats short of the 76 seats needed for a parliamentary majority. The results are actually a bit better than before Chernobyl but the Liberals still would lose more seats than the centrist Christian Democrats would gain. The opposition Labour Party would gain seven seats and be in a strong position to forge a new centre-left coalition with the Christian Democrats.

Public-opinion polls are viewed as rather reliable in the Netherlands because of its proportional representation system, which treats the whole country as one constituency. The distribution of parliamentary seats among the political parties corresponds as closely as possible to the proportion of votes nationwide. Moreover, Mr Maurice de Hond, the Netherlands' leading pollster, says voters cast their ballots more on party loyalty than on last-minute events.

STANDING OF DUTCH POLITICAL PARTIES

Party	No of seats: Opinion poll May 17	1982
Christian Democrats	46	45
Liberals	28	47
Labour Party	54	48
Democrats '66	11	6
Other left	5	9
Other right	6	7

Majority: 76

The Christian Democrats and Liberals have already said they would continue their pas de deux if they maintain a majority – a distinct possibility. No one has forgotten the surprise victory of Prime Minister Wilfried Martens of neighbouring Belgium, who won on voters' preference for the known over the unkown.

A new government accord would take about a month to hammer out as the pair of parties decided the pace of economic retrenchment, rolling back the bloated public sector and battling persistently high unemployment. If the coalition partners fail to get a majority in the election, then the picture gets cloudy.

The Socialists, being the biggest party, would get first chance to try to weld together a new coalition and would turn to the Christian Democrats, who have formed part of every government since the Second World War. Mr Lubbers and Mr Joop Den Uyl, the veteran Labour Party leader, have warned to that increasingly likely scenario in recent weeks, with both men softening their attacks. The already polite politicking has now approached a cosy competition that verges on boredom.

The Labour Party and Christian Democrats could probably agree on economic policies with relative ease. Even the Labour Party concedes that there is a need to cut the national budget deficit – the only question is how fast. Mr Lubbers, a shrewd and perceptive politician, has already promised to stop chipping away at the welfare programme, a subject dearer to the Dutch heart than even the nuclear issue.

The hallowed system of lavish government benefits has been trimmed only fractionally since the centre-right administration took office in 1982. But Mr Lubbers realises that many voters care more about bread-and-butter issues such as unemployment benefits, with a jobless rate of 15 per cent, than high-flown ones such as shrinking the budget deficit.

Compromise might also be found on nuclear energy, where the Chris-

Continued on Page 20

Nuclear reactor relayed, Page 3

UK ministers press for rise in spending

BY MICHAEL CASSELL AND PETER RIDDELL IN LONDON

A MAJORITY of British Cabinet ministers now believes there should be higher spending on education, health and housing to try to reverse the Government's rising unpopularity.

The ministers consider that more spending will be essential if the Government is to restore its chances of winning the next general election, even if it means raising previously agreed public expenditure targets for the late 1980s. They think there would be less scope for income-tax cuts.

Ministers are still studying the lessons of the recent reverses in by-elections and local council elections, and are conducting a public debate over how best to improve the Government's fortunes. There are signs of a compromise over the balance between tax cuts and public spending, which is now identified, along with unemployment, as the most vulnerable area of government policy.

Mrs Margaret Thatcher, the Prime Minister, gave no indication, when she spoke to Scottish Conservatives last week, that income-tax reductions would give way to higher spending on social services. But a new balance of opinion among ministers has become clear as they finalise their bids for extra expenditure in 1987–88 onwards, which have to be submitted by the end of this month.

The recent election losses and the fresh wave of criticism over the Government's performance, from inside and outside the ranks of its own supporters, will now give momentum to the case for higher spending.

Senior ministers, even those without large budgets, believe that there will have to be a compromise, with some increase in spending on social programmes and lower income taxes next spring, both made possible by continuing economic growth.

The balance has already been suggested by Mr John Biffen, leader of the House of Commons, Mr Kenneth Baker, the Environment Secretary, and Mr Malcolm Rifkind, the Scottish Secretary.

Under new rules, ministers have to sign personally their spending requests, which go directly to Mrs Thatcher as well as to Mr John MacGregor, Chief Secretary to the Treasury. In the past, at this stage, bids have been submitted through the official machine.

Moreover, ministers have to specify offsetting savings in their own budgets, matching any increases above previously agreed levels. The aim is to ensure that those bids and suggested savings should be refined in talks with the Treasury next month before the usual Cabinet discussion in July on the economic and spending outlook. Mr Mac Gregor is then expected to argue for confirmation of the existing £144bn total for 1987–88.

US groups win entry to new UK market

By Peter Montagnon in London

THE BANK of England has allowed three US institutions – Morgan Guaranty, Morgan Stanley and Salomon Brothers – to participate in the new sterling commercial paper market, where business officially gets under way tomorrow.

The move follows forceful lobbying by the three houses after foreign incorporated institutions were barred from managing or dealing in commercial paper issues under the market rules originally promulgated by the Bank last month.

Commercial paper represents short-term money market borrowing by companies in the form of negotiable securities sold directly to the investing community. It thus bypasses the banking system and is expected to create a cheaper form of finance for companies than bank credit or overdraft facilities.

Bankers say the admission of foreign institutions to the market is in no way back-tracking by the Bank of England. When the market was authorised, the Bank made clear that it would be prepared to consider applications from foreign institutions to play a part in the market.

It does, however, mean that the participation rules are being more flexibily applied than many UK houses at first thought. They expected to have the market to themselves and now face stiff competition.

By private agreement with the three houses concerned the Bank has set a limit on their activity in the market. This is designed to ensure that they do not gain an unfair

Continued on Page 20

New York Fed chief warns on dollar's decline

BY WILLIAM HALL IN NEW YORK

EFFORTS to drive down the value of the dollar over the last six months have been "broadly constructive," but there is a danger that too sharp a slide could have "very adverse consequences" for US interest rates and for the world economy, a leading US central bank official has warned.

Mr Gerald Corrigan, president of the Federal Reserve Bank of New York, told a banking convention in Phoenix at the weekend, that the "yellow light" was flashing in the world's foreign exchange markets following the recent sharp fall in the US dollar against leading currencies.

"In some very important respects we have been fortunate that the recent drop in the dollar exchange rate has not seemed materially to impair the willingness of foreigners to increase their holdings in dollar-denominated assets – something which, if it did occur, could have very adverse consequences for US interest rates and for economic prospects here and around the world," Mr Corrigan told the annual convention of the Bankers' Association for Foreign Trade.

"Whether we like it or not, we are stuck with a situation where we must finance a huge current account deficit," Mr Corrigan said. He noted that it was a "virtual certainty" that the net external indebtedness of the US would approach $500bn by the end of the decade.

Mr Corrigan's warning, which echoes earlier comments by Mr Paul Volcker, the Federal Reserve Board chairman, underlines the unease within the US central bank about the speed of the dollar's recent decline.

Mr Corrigan said that the willingness of foreigners to continue buying dollar assets in the face of falling exchange and interest rates reflected a number of considerations. Dollar interest rates still maintain a favourable – although significantly narrowed – spread over competing instruments abroad, and the US remains an attractive investment outlet because economic performance and prospects look promising.

However, in looking at the last six months there can be "little doubt that one very important factor supporting the continued flow of foreign funds into the US has been the very substantial appreciation of the capital value of stocks and bonds," Mr Corrigan said.

The rise in stock and bond prices has largely offset the effect of the declining dollar for foreign investors. "The sheer size of the recent rise in stock and bond prices raises at least the question as to how much further stock and bond prices can rise in the near term," Mr Corrigan added. He warned that the "sensitivities associated with exchange-rate developments remain high and in some ways have increased."

Llamas go west in the great American round-up

By Fiona Thompson in London

AMERICAN interests have achieved the least likely, and most muted, buy-out of a British enterprise: the llama-breeding business.

The impact has been dramatic. Wholesale depredations of British breeding stock have resulted from incursions by US buyers making cash offers that the home llama owners cannot refuse.

The transatlantic traffic in these useful – but sometimes spittingly disagreeable – animals has arisen because of their increasing popularity in the US. There they are kept as prestigious pets and as trouble-free pack animals, used by wilderness hikers exploring the great outdoors.

The growth of the export trade has greatly depleted the available stock in Britain while the demand for llamas as pets in the UK is leaping.

"This country is very close to running dry of llamas," says Mr Malcolm Keller, a breeder from Brackwell, near Bristol. "Twenty years ago there were many thousand llamas here. Now there are fewer than 500. Almost all have been exported to the US, about 70 per cent of them as pets."

A proven female breeding llama aged between three and a half and five years, with 10 years' breeding life, can fetch up to $5,000 in the US, according to Mr Kellar. Alpacas, the smaller, sleeker cousins of the llama famed for their wool, can command up to $15,000 each. There are only 120 alpacas in Britain now, down from a few thousand 20 years ago.

Llamas and alpacas are completely domesticated, hence their popularity as pets. Along with their wild cousins, the vicuña and the guanaco, they are the South American members of the camel family.

Llamas are extremely graceful and, according to owners and breeders, will tame very quickly. Fascinating to watch, they are happy to be led on a rope and head collar and will easily carry loads up to 80 lbs. They do not inflict damage to trails, as do horses, and are content at high altitudes – their natural habitat being the mountains of Chile, Peru and Bolivia, where they are used as pack animals.

"Their only vice is spitting," according to Dr Eva Bourne, owner of four llamas in Manchester. Although normally they make little noise, llamas will spit when they are angry. It can take two forms, one an ordinary spit of saliva. But

Continued on Page 20

Burroughs and Sperry confirm talks on merger have begun

BY PAUL TAYLOR IN NEW YORK

BURROUGHS and Sperry, two of the largest US computer manufacturers, were in negotiations at the weekend that might lead to a merger, creating a new and more powerful challenger to IBM in the mainframe markets.

Confirmation of the merger discussions came from both companies on Friday night, almost two weeks after Burroughs first proposed a $4.06bn takeover of Sperry. Late last week Burroughs had indicated that it was prepared to raise its $70-a-share cash and paper offer after Sperry had rejected it as "wholly inadequate."

Details of the talks remained sketchy but the discussions, aimed at forming a new mainframe computer group able to compete with market leader IBM, are believed to be taking place in New York and to involve Sperry's chairman Mr Gerald Probst, and his counterpart at Burroughs, Mr Michael Blumenthal.

Earlier last week Sperry rejected Burroughs' bid for control of the group through a two-step tender offer and merger proposal terming the $70-a-share price "wholly inadequate." At the same time Sperry launched a conditional self-tender offer for 29.5m of its own shares at $80 a share, which, if triggered, would saddle the merged company with debt.

Burroughs has already begun a $70-a-share cash tender offer for 33m Sperry shares, which, if completed, would give it control of the group as the first step in a merger. However, it might take Burroughs two years or more to gain control of Sperry's board if the bid remains hostile, because Sperry has previously instigated a number of anti-takeover defences, including staggered directors terms.

Wall Street has however generally viewed Sperry's novel self-tender offer response, which appears to set a minimum $74 to $75 a share value on the group – as an attempt to put pressure on Burroughs to sweeten its bid, rather than an outright rejection of the merger proposal. Reflecting that, Sperry's shares rose a further $1⅛ to $73⅞ on Friday after the preliminary negotiatons were disclosed.

If Burroughs were to increase its bid to around $75 a share – as appears possible – the deal would have a value of around $4.75bn. Wall Street analysts have noted that Burroughs has the financing flexibility for such a move, since it has already arranged bank credit lines totalling $3bn – roughly $690m more that it needs for its first-step current $70-a-share cash tender offer.

But despite Mr Blumenthal's apparent determination to complete a merger agreement with Sperry after the failure of similar merger talks last year, the final outcome of the current negotiations still remains uncertain.

Although Sperry has previously indicated a desire to remain independent, the group is also widely rumoured to have been searching for a possible "white knight" friendly suitor in response to the Burroughs bid and is understood to have approached Honeywell, the Minneapolis computer, controls and defence group, among others. Although the Honeywell approach is thought to have been abandoned, Sperry has made clear in recent US Securities and Exchange Commission filings that talks with possible alternative suitors might be revived.

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OVERSEAS NEWS

GOVERNMENT WILLING TO TAKE TOUGH POLICY DECISIONS

Mexico 'close to debt package'

BY WILLIAM HALL IN PHOENIX

MR MIGUEL MANCERA, the governor of Mexico's central bank, says that he is hopeful that his country will reach agreement "in a matter of weeks" with the International Monetary Fund (IMF) on a long-delayed rescue package.

Mr Mancera, who was addressing the Bankers' Association for Foreign Trade annual convention in Phoenix, Arizona, at the week-end, said that Mexico had "advanced a lot" in discussions with the IMF and went to considerable lengths to allay concerns among bankers regarding Mexico's willingness to take the necessary steps to put its house in order.

In particular, he suggested that the attention being given to the country's budget deficit as a proportion of gross domestic product gave a "rather distorted and unfavourable view" of the fiscal adjustment accomplished since 1983.

Mr Mancera admitted that concern about the size of Mexico's budget deficit was the main obstacle in reaching agreement with the IMF and had created a certain "animosity" towards his country in international banking circles.

However, he said that it was false to suggest that Mexico had a poor record in cleaning up its public finances.

Mexico's deficit equalled 10 per cent of GDP last year compared with an initial target of 5 per cent. The deterioration has been blamed almost entirely on the impact of the drop in world oil prices on Mexico's budget.

Mr Mancera said that concentrating on the overall fiscal deficit had considerable drawbacks in a highly inflationary economy like that of Mexico. He suggested that a better way of measuring the public sector deficit would be to exclude the inflation induced component of interest payments on the public debt—a concept known as the operational deficit. On this basis he was confident that Mexico's operational deficit would not exceed 2.5 per cent of GDP in 1986.

Mr Mancera also criticised recent "very exaggerated" US estimates of the scale of capital flight from Mexico.

He described as "highly questionable" estimates that $17bn of capital had left his country between 1983 and 1985, following the onset of the international debt crisis. He said that estimates of capital flight, published earlier this year by Morgan Guaranty in its influential World Financial Markets bulletin, were based on "mistaken methodological and statistical bases."

Mr Mancera's criticism of the Morgan Guaranty estimates were endorsed by Dr William Cline of the Washington-based Institute for International Economics, who described the $17bn figure as "excessive" and said that Mexico's current account figures were misleading.

"The image of Mexico as a place where you cannot lend any money because the likelihood is very high that it will flow out is incorrect and is doing a lot of damage to the prospective attitudes of the banks with respect to the new money package," Dr Cline said.

"The current reality is that Mexico's monetary policy is so strict that it is bringing money into the country instead of facilitating capital flight," Dr Cline said. He added that there were reports that the Mexican Government was buying as much as $100m a week in foreign exchange on the free market.

Balaguer leads poll in Dominican Republic

By Robert Graham in Santo Domingo

MR JOAQUIN BALAGUER, the 78-year-old blind leader of the right wing Reformist Party (PRSC) looked set to win yesterday the Dominican Republic presidential election, earning himself a fifth term in office.

With 90 per cent of the votes counted, Mr Balaguer had won almost 41 per cent, compared with the 39 per cent accumulated by Mr Jacobo Majluta, the 52-year-old candidate of the ruling Dominican Revolutionary Party (PRD).

The closeness of the result is likely to make the task of government difficult without some form of coalition. In private yesterday there were suggestions of forming a government of national reconciliation. But neither candidate was willing to commit himself until a formal result to Friday's poll was known.

Mr Balaguer was first president from 1960-62 in the twilight of the Trujillo dictatorship and he was then elected president from 1966 to 1978.

The vote count has been exceptionally slow, bringing accusations from the opposition that the government of President Salvadore Jorge Blanco was attempting to manipulate the outcome in favour of Mr Majluta. Since results first started coming Mr Balaguer and Mr Majluta have been running neck and neck.

ANC and group from Commonwealth may hold more talks

BY PATTI WALDMEIR IN LUSAKA

THE DOOR has apparently been left open for a further session of talks between the African National Congress (ANC) and a Commonwealth team working to initiate negotiations between the South African Government and its opponents.

The Eminent Persons Group from the Commonwealth left the Zambian capital, Lusaka, after one day of talks with ANC leaders. Both sides declined comment on the meeting, which lasted most of Saturday. The group, which includes former Australian Prime Minister Malcolm Fraser and former Nigerian military leader General Olusegan Obsanjo, has returned to South Africa.

Speaking in an interview with a US television network following the conclusion of the talks, Mr Oliver Tambo, the ANC president, who led the Congress delegation on Saturday, refused to be drawn on the outcome. However, he reiterated the ANC's oft-repeated preconditions to negotiations, saying that imprisoned ANC leader Nelson Mandela and other political prisoners would have to be freed unconditionally and the Congress legalised in South Africa, before ANC leaders could consider the question of negotiations.

He added that the ANC would not consider Pretoria's demand that it renounce violence until these conditions had been met, and repeated his recent calls for an intensification of the armed struggle in the country.

The outline of a peace plan being drafted by the Commonwealth group during talks with South African officials is understood to call for the declaration of a ceasefire by the ANC in exchange for the release of Mr Mandela and the lifting of Pretoria's ban on the organisation.

Despite Mr Tambo's hard line comments yesterday, an ANC spokesman said he did not view the Commonwealth initiative as "hopeless" and held out the prospect for further negotiations. ANC officials are privately concerned at the impact which an outright rejection of the initiative could have on the organisations' image abroad, while the fear that appearing to compromise with Pretoria could cost the support in the country's increasingly radical black townships. The chance of an early start to talks between the two sides continues to appear slim.

South African police said they had found what they believed to be the biggest arms cache in the country's history, Reuter reports from Johannesburg.

The cache included 11 demolition mines, 28 blocks of Soviet-made dynamite, 41 kilograms of plastic explosives, a transmitter and radio receiver, detonators, rocket propelled grenade launchers and six rockets, a sighting device and a number of limpet mines. The cache was found down a mine shaft on the West Rand, near Johannesburg, police said.

Tamils break lull in fighting

By Mervyn de Silva in Colombo

TAMIL separatist rebels broke a fortnight's lull in fighting by launching an attack on Elephant Pass Fort, the main army encampment in the north, on Saturday followed by clashes with army patrols in several areas of the northern peninsula yesterday.

The Government said 12 rebels, two soldiers and a civilian had been killed in the week-end battles. The Tamils, however, claimed that the army has launched a major offensive.

Mr Lalith Athulathmudali, the National Security Minister, denied reports that the Government was planning a new offensive in the north. He was commenting on reports that a large convoy of trucks carrying soldiers together with armoured personnel carriers and heavy guns were moving to the northern peninsula in preparation for a "major push."

Confused reports of pitched battles in the north, especially around Palaly airport and at Elephant Pass, the main land entry to the peninsula, pointed strongly to the possibility that the Tamil Tigers, the most powerful of the militant groups, had once again trained its guns on the security forces.

Earlier this month, the Tigers concentrated their fire on a rival group, Telo. In fierce fratricidal fighting, the Tigers killed at least 150 Telo fighters and established its military supremacy in the north. Reports said that the Tigers were attacking army patrols from school buildings, churches and private houses.

Taiwan accuses China of stalling in negotiations

By David Dodwell in Hong Kong

TAIWAN yesterday accused China of deliberately stalling negotiations over the recovery of a Taiwanese aircraft and two of its crew after the aircraft's captain flew it to China. The attack came after a second day of talks ended in deadlock. Both sides have nevertheless agreed to resume talks this morning which are the first official contact between the two countries in 37 years. Yesterday's two-hour meeting between officials from the national airlines of China and Taiwan — slightly longer than that held on Saturday — ended in deadlock because of Peking's insistence that the China Airlines Boeing 747 and its cargo of fruit and tyres should be handed directly to Taiwanese officials in Canton.

Taiwan's negotiating team has said that a Canton handover is acceptable, but insists that a third party must be allowed to collect the aircraft on its behalf.

At a Press conference yesterday, a Taiwanese spokesman said China's airline officials were refusing any third party involvement. The spokesman said it was "totally unacceptable" for any Taiwanese to travel to Canton, even with full guarantees over their safety.

Pakistan Speaker to be ousted

BY JOHN ELLIOTT AND MOHAMMED AFTAB IN ISLAMABAD

PAKISTAN'S ruling Moslem League Party has decided to remove Mr Fakhar Imam, the Speaker of the National Assembly, from his post, accusing him of not being impartial and of not co-operating with the Government.

This is second of two moves made in the past week by the Government to strengthen its political base one month after Miss Benazir Bhutto, daughter of the late President Zulfikar Ali Bhutto, returned to Pakistan to lead the political opposition.

Last week the President, Gen Zia ul-Haq, issued an ordinance cancelling election laws which could have caused Mr Mohammed Khan Junejo, the Prime Minister, to face by-elections along with up to 170 National Assembly members of his party.

Both moves come when Miss Bhutto has been demanding early party-based elections to replace the existing assembly which was elected last year without any parties but which now operates on a party basis following the end of martial law on January 1.

The Government does not want to face the disruption of by-elections which would provide Miss Bhutto with a new political platform and could lead to substantial victories for members of her Pakistan People's Party. The Government also wants to establish a stronger hold over the activities of the assembly.

Mr Imam is a respected independent politician in his early 40s. He was elected speaker last year by an overwhelming majority as part of a political balance which made Mr Junejo, the nominee of President Zia, the Prime Minister. He first rejected an appeal from President Zia to stand down from the voting and then heavily defeated the President's own candidate.

Since then he has annoyed the Government on several occasions with his speaker's decisions.

Kuwait 'will not pull out assets'

Finance Minister Jassim al-Khorafi said yesterday that Kuwait's plans to spread its investments to Communist states and the Third World did not threaten its huge assets in the west, Reuter reports from Kuwait.

"Kuwait is seriously interested in investments in the Soviet Union and China, in accordance with a policy to vary its investments in many countries and expand their geographical spread, he told Al-Qabas newspaper.

"Kuwait will realise new income from oil investments with the Soviet Union and China, but this does not mean we will pull out our investments from the west," he added.

Punjab leader performs penance

PUNJAB'S MODERATE Akali Party Chief Minister, Mr Surjit Singh Barnala, yesterday spent the day at the Holy Sikh temple at Anandpur Sahib cleaning the shoes of Sikh pilgrims as part of a seven-day penance that could heal the serious rift in his ruling party, K. K. Sharma writes from New Delhi.

Mr Barnala has been ordered to carry out these tasks by the five high priests of Sikhdom to atone for sending commandos and police into the holy Golden Temple at Amritsar last month to flush out Sikh extremists who had gained control of the shrine.

Mr Barnala's action, which followed a declaration of independence for a Sikh homeland called "Khalistan" by the extremists, sharply divided the ruling Akali Party and threatened his own Government. Three ministers resigned and 29 members of the Akali Party in the legislature broke away to form their own group, thereby reducing his supporters to a minority.

Mr Barnala's critics said that sending in armed personnel into the sikhs' holiest shrine was an unforgivable act and urged the Chief Minister to appear before the high priests to explain his conduct.

On Saturday, Mr Barnala surprised everyone by suddenly flying to Amritsar to justify his action on the grounds that he had been authorised by a supreme religious congregation to expel the extremists from the Golden Temple.

Mob disrupts Korean rally

BY STEVEN B. BUTLER IN SEOUL

AN opposition memorial service for victims of the bloody 1980 Kwangju uprising was disrupted by a mob of youths shouting slogans against the moderate New Korea Democratic Party yesterday.

The opposition immediately accused the Government of sending in thugs disguised as students and workers to break up the service, although the Government strongly denied the charges.

A split between the moderate opposition and radical students groups surfaced two weeks ago during a rally in the city of Inchon. The rally degenerated into a six-hour battle between police and students.

Opposition leaders Kim Dae-Jung and Kim Young-Sam, however, both indicated at the weekend that efforts to patch up the quarrel with student groups had made progress and that radical students had decided not to take further steps to embarrass the moderate opposition."

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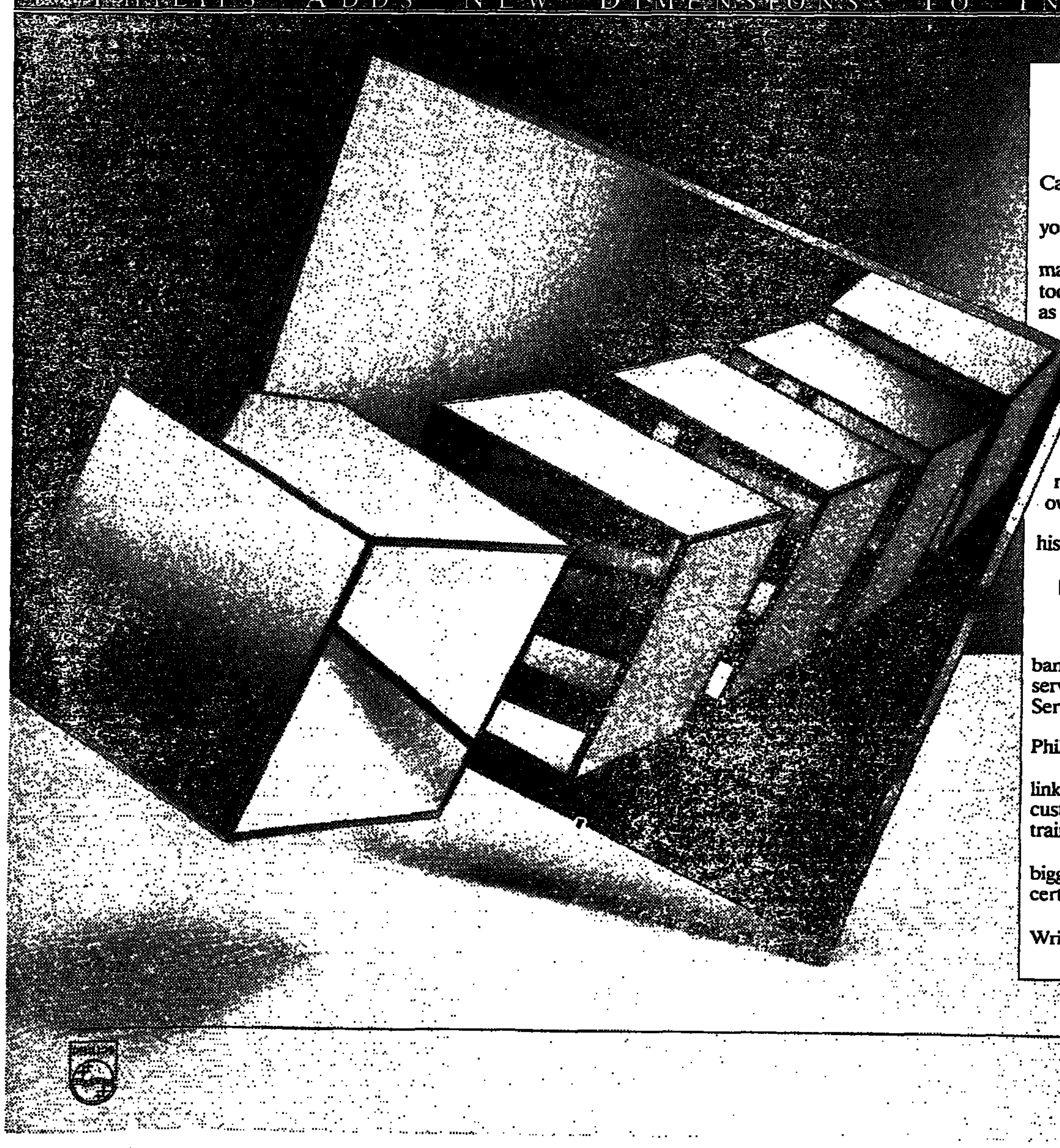
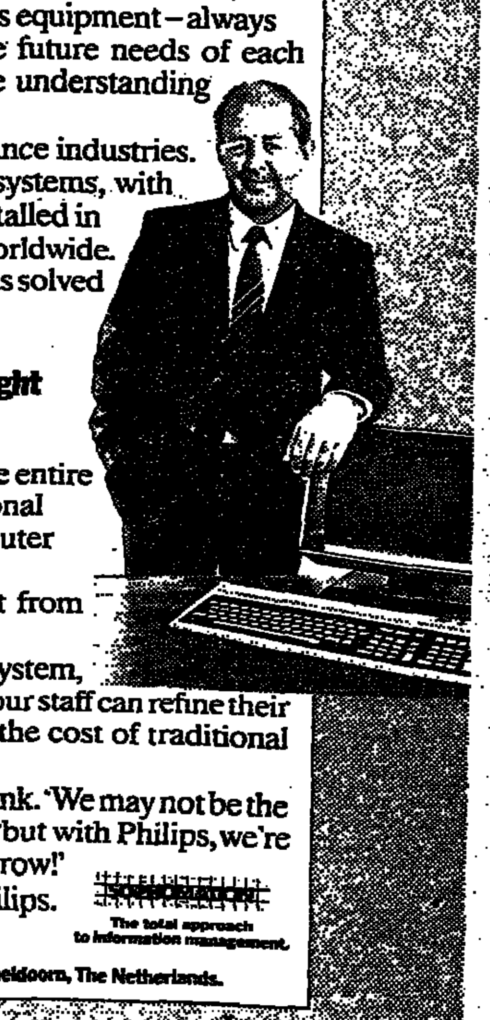




OVERSEAS NEWS

Israel and Syria say tension between them diminishing

BY REGINALD DALE, US EDITOR IN WASHINGTON

ISRAEL and Syria yesterday backed away from a new round of military confrontation, with both countries claiming that the recent tension between them was diminishing.

Mr Shimon Peres, the Israeli Prime Minister, said on American television that Israel did not intend to attack Syria and that he did not see an imminent danger of war between the two countries. "I do not believe that Syria will attack Israel tomorrow morning," he added.

President Hafez Assad of Syria told the Washington Post that the risks of confrontation appeared to be lessening. Neither Syria nor Israel had undertaken any unusual troop movements in recent days, he said in an interview.

Tension between the two countries increased last week after the Israeli, British, West German and American governments all linked Syria in one way or another with international terrorism. Israel, in particular, accused Syria of involvement in the failed attempt to bomb an El Al airliner on a flight from London's Heathrow airport to Israel last month.

Israel also complained of threatening moves by Syria to fortify positions in Lebanon, leading to speculation that Israeli forces would either launch a pre-emptive attack, or strike in retaliation for the El Al incident, or both.

In the Washington Post interview, however, Mr Assad went out of his way to deny Syrian sponsorship of international terrorism against civilians in general and the El Al attack in particular. No terrorist actions would be allowed from Syrian territory, although he would not restrict "cultural and political" activities by Palestinian groups, he said.

Mr Peres, who was openly cynical about this claim, nevertheless welcomed it as evidence that Mr Assad was becoming sensitive to international criticism. Now that terrorism had become international and was no longer directed at Israel alone, there was a much wider choice of means to fight it including co-ordinated economic and diplomatic measures and the pressure of public opinion, he said.

He dismissed reports that he had come under pressure in the Israeli cabinet to strike Syria militarily in recent days, saying that other options were available.

Kohl wants Moscow to pay for damages

WEST GERMAN Chancellor Helmut Kohl yesterday criticised Mr Mikhail Gorbachev, the Soviet leader, for failing to offer compensation to the West for the effects of radioactive fall-out from the Chernobyl nuclear disaster, *Reuter reports for Munich.*

Referring to Mr Gorbachev's televised address on the Chernobyl reactor accident last Wednesday, Mr Kohl said the Kremlin leader had taken three weeks to make a public statement on the issue.

"It would certainly have been better if he had dropped his attacks on other states and explained how the Soviet Union intends to compensate for the material damage which was caused, above all in the Federal Republic of Germany," he told a rally in Munich.

Mr Gorbachev accused Western countries of exploiting the Chernobyl accident to mount an anti-Soviet campaign and singled out the US and West Germany for special criticism.

Bonn has said it wants compensation from Moscow to cover losses suffered by German farmers after milk and vegetable sales were restricted when radioactive fall-out from the reactor reached West Germany.

The Soviet ambassador to Bonn, Mr Yuli Kvitsinsky, has said the Kremlin feels no obligation to make any such payments.

Meanwhile, the West German Greens party, buoyed by a surge of support after the Chernobyl disaster, yesterday demanded the country's immediate withdrawal from Nato.

Delegates at an environmental party's congress in Hanover brushed aside moderate resolutions on defence policy to make the slogan "Out of Nato" a central theme — together with abolition of nuclear power — in their campaign for national elections in January.

Dutch delay plans for nuclear reactors

BY LAURA RAUN IN AMSTERDAM

AMBITIOUS PLANS for at least two new nuclear power plants in the Netherlands have been delayed – probably for years – and could eventually be dropped.

The proposal for two or more reactors with a combined generating capacity of around 2,000 megawatts is presently among the biggest nuclear projects outside France. But the Christian Democrat-Liberal Government had little choice other than to freeze plans until the Chernobyl disaster is thoroughly understood.

The Economics Ministry is to report back to the Cabinet on the Russian reactor accident but did not indicate how long that would take.

Meanwhile, the electricity utility industry has closed the nuclear construction bureau that originally was to have invited bids this month for the Fl 10bn ($4bn) pair of reactors.

The centre-right Government of Prime Minister Ruud Lubbers decided in January 1985 to expand nuclear power as a way of meeting the country's energy needs by the year 2000. The Parliament agreed with the Cabinet's decision amid amazingly little fanfare considering the Netherlands' long and bitter opposition to nuclear energy.

A decade of often vitriolic public debate had kept new nuclear power stations at bay, leaving the Netherlands with only a relatively small 6 per cent of its electricity nuclear generated. The two existing nuclear plants are a 450 MW pressurised water reactor in Borssele built in 1973 and an experimental 50 MW boiling water reactor in Dodewaard

Chernobyl has whipped up anti-nuclear feeling, but sentiment is not running nearly as high as in past years or elsewhere in Europe.

About 70 per cent of the Dutch population opposes new nuclear stations, according to a recent public opinion poll, compared with less than 50 per cent last January. But the poll also showed that more than half believed the existing plants *should be kept open.*

Pakistan shoots down MiG-21

BY MOHAMMED AFTAB IN ISLAMABAD

THE SHOOTING down of a Soviet *MiG-21 fighter by the Pakistan Air* Force during the weekend could lead to increased fighting in Afghanistan and across the Pakistan-Afghanistan border.

Two Pakistani F-16s shot down the MiG-21 which was nine miles *inside Pakistani territory* and had dropped four bombs near Parachinar, close to the Afghan border.

Pakistani soldiers spent yesterday scouring the rugged mountains near Parachinar where the wreckage of the jet was strewn, searching for the missing pilot.

The aircraft was one of four MiG-21s which had intruded into Pakistani territory. Pakistani aircraft also *hit another MiG-21 in the tail* but the burning aircraft was last seen flying back towards Afghanistan. It *may have crashed.*

The border area bombing and shootings were stepped up after May 5 when foreign ministers from Pakistan and Afghanistan began UN-sponsored negotiations with the aim of resolving the Afghan crisis.

More than 35 people, many of them Afghan refugees, have been killed by Soviet and Afghan forces in the Parachinar areas during the past fortnight.

The aircraft, which appears to prove Pakistani charges that Soviet jets violate its air space, was hit one day after the Soviet-backed Kabul government and Islamabad agreed to continue the peace negotiations in Geneva.

The talks, which began in 1982, *have been held back over the vital* questions of the withdrawal of 115,000 Soviet troops from Afghanistan. The Soviet Union believes that if it withdraws its soldiers, the Islamic guerrillas will overrun Kabul and capture the Government *from the present communist regime* led by President Babrak Karmal.

Western diplomats monitoring the situation said: "If the Soviets and Afghans do not take the shooting down of their aircraft seriously and continue intruding into the Pakistani territory, the cross-border fighting may escalate. But it is also unlikely that they will sit back and cease their operations into and close to the Pakistani border."

Former Turkish PM attacks political curbs

TURKEY'S former Prime Minister, Mr Bulent Ecevit, bitterly attacked *restrictions on political life* in that country when he addressed a mass audience in Ankara for the first time in six years, **Reuter reports from Ankara.**

He spoke to several thousand cheering supporters of the small Democratic Left Party, formed by his wife Rahsan last year, in an apparent breech of a ban on his involvement in politics until 1992.

Mr Ecevit, 60, who was premier three times during the 1970s, devoted much of his 90-minute speech to attacking the country's 1982 constitution, which imposed the restriction on him and which he said did not represent the will of the people.

Students and teachers were barred from politics, civil servants from forming associations and professional groups could not express their views feely, he said.

While Prime Minister Turgut Ozal had business friends in Parliament, officials of trade unions and co-operatives were not allowed to be deputies.

Parliament last month lifted a ban on former leaders speaking publicly.

But they remain under a constitutional restriction that they "shall not establish relations of any kind with political parties."

Iran says Iraqi assault on border town halted

BY KATHY EVANS IN DUBAI

IRAN SAID its troops beat off an Iraqi invading force in the area of the border town of Mehran yesterday and that Iraqi troops were now three miles from the town.

Over the weekend Baghdad claimed that Iraq's second army corps had captured Mehran, which lies in the central sector of the war front. Troops crossed the border at a point 37 miles south-west of the Iranian city of Ilam.

If confirmed, this represents a minor success for the Iraqi forces since they began their new tactic of entering Iranian territory to divert Iranian operations in the Faw peninsula. The Iraqi army has been unable to dislodge Iranian troops from Faw, since they crossed the Shatt al Arab waterway on February 9. Iraqi forces now claim to hold 145 sq miles of Iranian territory.

On the other side of the Gulf, the bodies of two Honduran seamen killed in a missile attack on the supertanker, Aristotle S. Onassis, were brought to a Dubai hospital yesterday. Several recent attacks in the southern Gulf near UAE territory mark an apparent widening of the danger zone.

Finnish strike settled

FINLAND'S strike of *42,000* civil servants ended at midnight Saturday after the unions' board of representatives voted 10—1 to return to work, *Olli Virtanen reports from Helsinki.* The employers' side approved the mediators' offer earlier.

The strike, which stopped trains, seriously disrupted air traffic and closed most of public offices including the Post Office, lasted almost seven weeks.

The settlement gives civil servants a pay rise of about 20 per cent in total for this year and 1987

Yugoslav Premier favours bigger market forces role

BY ALEKSANDAR LEBL IN BELGRADE

MR BRANKO MIKULIC, Yugoslavia's new prime minister, has said that he favours the principle of giving market forces greater sway, but will not shy from imposing controls if companies continue to abuse the lack of economic competition by raising prices excessively.

Yugoslav inflation is running at more than 80 per cent a year. Mr Mikulic has more room to manoeuvre than Mrs Milka Planinc from whom he took over the premiership last Friday, because that day also saw the end of six years of supervision by the International Monetary Fund under standby arrangements. The IMF consistently opposed attempts to freeze prices.

In his inaugural speech to Parliament, Mr Mikulic promised to pursue policies that would reward those who increased exports, productivity, and savings. He particularly wanted to promote small businesses with fiscal and credit incentives, as well as tourism and joint ventures.

Editorial comment, Page 18

French unemployment

French unemployment rose by 1.7 per cent in April to 2.429m people, *our Paris Staff reports.* But this still leaves the total number of unemployed only 1.1 per cent above the level of a year ago.

Prediction of further unemployment this year takes no account of the Government's crash programme to provide more jobs for the young by partially waiving social security contributions

WORLD TRADE NEWS

UK government help for exporters to Africa criticised

BY MICHAEL HOLMAN

BRITISH aid, trade and commercial representation in Africa is sharply criticised in the results of a survey* of nearly 50 companies published today.

The commercial sections of British embassies and high commissions are often under-staffed and personnel said to lack adequate commercial training; there is "unsatisfactory" provision of export information, and the services of Britain's Export Credit Guarantee Department (ECGD) does not match those provided by competitors, according to responses to a questionnaire circulated to companies with interests in Africa.

The exercise was conducted by a committee comprising representatives of the London Chamber of Commerce and Industry, the East Africa and Southern Africa Associations, and the West Africa Committee.

The committee acknowledges that there is a temptation for companies to claim all the credit for their successes, and blame British government policies and the embassies' shortcomings, for all their failures. "Nevertheless," it says, "there is concern about British government support being inferior to the support given by foreign governments to their business enterprises."

The committee's report highlights five areas in particular:

- The early warning system provided through the British Overseas Trade Board's Export Information Service is considered "unsatisfactory," while posts in Africa are undermanned and often inadequately trained.
- Co-ordination of government services available to companies is lacking and a single reference point is needed.
- Financing of pre-feasibility studies for major construction projects should be one of government's foremost priorities when considering the application of bilateral development funds.
- The ECGD does not match the support provided by competing export credit agencies.
- The services of the Department of Trade and Industry, the BOTB and other government and quasi-government bodies are insufficiently known to British business, says the committee.

**British aid, trade and commercial representation in Africa, London Chamber of Commerce and Industry, 69, Cannon Street, London EC4N 5AB. Tel 01-248 4444.*

Norwegians to build Bosporus ferries

By Fay Gjester in Oslo

FJELLSTRAND, A west Norwegian shipyard which specialises in building high-speed, aluminium passenger ferries with catamaran hulls, has booked its largest-ever order—for 10 vessels each 38.5 metres long, with seating for 450.

The contract, worth about $35m, comes from a newly-established company in Istanbul, Albatross Shipping, which will operate a service across the Bosporus Straits, linking the Asian and European halves of the Turkish city.

The first ferry will be delivered by the end of February 1987 and the others by September 1988. Five will have a maximum speed of 25 knots, and the others of 32 knots.

Fjellstrand is reported to be taking a stake in Albatross, and that the 10 ships, to be built on credit, will be paid for from operations.

Fjellstrand managing director, Mr Erik Nevedal, conceded that Fjellstrand was "helping to establish" Albatross Shipping, but said that his company had not yet decided whether it would actually take a stake in the new company

Mary Frings reports from Dallas on the Teresat project

China launch for US satellite group

THE US Teresat project, which plans to use China's Long March 3 carrier rocket to put two commercial telecommunications satellites into orbit, will be funded by a $80m public share float, together with some private equity and loan finance.

Mr Henry Schwarz, president and chairman of Universal Satellites (Usatco)—which is a 25 per cent equity holder and managing partner in the Teresat consortium—said yesterday two US companies had expressed interest in underwriting the public issue, which would be offered in the market "as soon as the pieces of the project have been put together." He declined to name the potential underwriters at this stage.

He said China's Great Wall Industry Corporation was offering preferential launch and insurance rates, but would not be involved in financing either the purchase of the two satellites from Lloyds of London or the cost of launching them.

Lloyds underwriters have been holding Western Union's Westar six and the Indonesian government's Palapa B satellites as salvage since 1984, when the US Space Shuttle Discovery recovered them from faulty orbit.

If they conclude a package deal with Teresat at the reported price of $50m, they will recoup less than a third of the $180m paid out in insurance claims, to say nothing of the cost of the retrieval operation.

The Teresat project is unique not only because it is based on salvaged hardware, but because it promises to give Chinese technology its first big breakthrough into the Western commercial market.

To achieve this, the Chinese were prepared to cut satellite launch costs by about 15 per cent and offer an attractive insurance package through their own People's Insurance Company.

The project is unique not only because it is based on salvaged hardware, but because it promises to give Chinese technology its first big breakthrough into the Western commercial market

A delegation from quasi-government Great Wall Industry visited several aerospace companies in the US last month. This helped to establish its credentials. But the strongest argument in favour of the Long March 3 launch vehicle was its availability, at a time when the European Ariane programme is fully booked and Nasa launch schedules are delayed for at least 18 months. Teresat had booked a November 1987 launch slot with Nasa for Weststar Six.

The initial $80m price-tag which members of the Teresat consortium are placing on their project covers only the costs associated with acquiring the hardware and the first launch. It does not include the second launch about three months later (the Chinese rocket carries only one satellite), nor the $10.5m worth of new equipment Teresat is putting into each satellite.

Pending the public flotation and the negotiation of loans, bridging finance of about $8m will be arranged next month through private equity placements by First National Trust (FNT) of Houston, which is a partner in the consortium.

Mr Dan Besbourn of FNT said the response had been excellent and he already had tentative commitments for the bulk of the $8m.

FNT has been in business since 1888—which makes it a venerable institution in the state of Texas. A privately-held company with only three principals, it acts broadly as an investment banking institution geared to the real estate market.

Its biggest venture so far is a $32m terminal project in the port of Houston, comprising four cargo docks, a giant grain elevator and a tank farm used for export storage of edible oils. FNT is the managing partner and majority shareholder in the limited partnership formed to own the project.

FNT's role in Teresat is not only to raise finance, but also to provide an interface with the real estate community. Teresat's targeted customers for satellite telecommunications capacity will be real estate developers and their tenants in industrial parks and office buildings throughout suburban US.

Mr Besbourn says there is a demand for what he calls "enhanced tenant services" such as shared data transmission and video conferencing facilities, which could add $5 a square foot to the rental value of commercial property. Teresat will mount an aggressive marketing campaign in the next six months, and is hoping to secure commitments for 50 per cent usage of Westar's 24 transponder capacity by the time the satellite is launched next year.

If this usage level is achieved on each satellite, the annual lease revenue would amount to about $20m, at the projected rate of between $800,000 and $1m per transponder.

Brel wins rail coach order from China

By Lisa Wood

British Rail Engineering (Brel), which is expected to announce nearly 4,000 redundancies this week, has won a foothold in the huge Chinese market for rail coaches.

A £5m deal has been signed, after 18 months of talks, for Brel to build three prototype vehicles based on the company's design for a high-tech international coach. Brel will also co-operate closely on re-organising China's passenger coach factory at Changchun where the vehicles will be built.

Mr Philip Norman, Brel's chairman and managing director, said: "We have secured one of the most prestigious and significant rail projects of its kind. There could be opportunities for the sale of significant quantities of hardware and, having opened the door to this market, Brel and the UK supply industry are well placed for further business."

The Chinese plan to build 1,500 coaches by the early 1990s based on the prototypes to be built at Brel's Derby plant. The placing of the order will have no effect on the imminent announcement of redundancies.

Brazil subsidy challenged by Eximbank

THE US Export-Import Bank has once again challenged Cacax, the Brazilian export credit agency, for offering to sell hydroelectric power plant equipment in the US with subsidised export financing, Nancy Dunne writes from Washington.

Eximbank is offering a loan of $4.2m at 6.5 per cent to finance the sale of turbine generators for a project on the Youghiogheny River near Pittsburg. The offer is in direct competition with a bid from Voith-Brasil of Sao Paulo.

The bank is backing Allis-Chalmers Hydro of York, Pennsylvania, and Century Steel erector of Pittsburg, under a provision of US law which allows Exim to offer subsidised financing domestically when foreign financial subsidies may be "a significant factor" in a deal.

Mr John Bohn Jr, the bank's chairman, said he is especially concerned about the Brazilian offer of low interest rate US dollar financing when Brazil "is ignoring arrears of $209m on its loans from Eximbank."

Caribbean leaders head for Tokyo

THE prime ministers of three Caribbean island - states — Antigua, St Lucia and St Vincent—are going to Tokyo this week to discuss trade, aid and investment possibilities in the Organisation of Eastern Caribbean States countries, writes Canute James in Kingston.

The organisation groups the former British colonies in the Leeward and Windward islands. Mr. Jack Compton, St Lucia's Prime Minister said they would be seeking to redress the considerable trade imbalance with Japan.

Competition to sell aircraft intensifies

By Robert Thomson in Peking

THE COMPETITION to supply China's increasing aircraft needs has been particularly evident in the past week with leading US manufacturers displaying their wares at an aerospace exhibition here, and Boeing formally announcing on Saturday the sale of eight aircraft to the Civil Aviation Administration of China (CAAC).

Also, the United Technologies Corporation announced at the weekend that China would assemble Pratt and Witney engines under a licensing agreement with the China National Aero-technology Import Export Corporation for the country's Y-12 commuter planes.

Boeing's vice-president of international sales, Mr Robert Norton, said his company was convinced that "We must do more than just sell planes to China," and is looking for a suitable manufacturing agreement similar to one arranged by McDonnell Douglas.

McDonnell Douglas has signed an agreement for the assembly of 25 MD-80 twin-jet transports in Shanghai with the Shanghai Aircraft Industrial Corporation. The aircraft will be partly assembled in Long Beach, California, and then shipped to Shanghai for completion.

Mr Norton said Boeing had been discussing the sale of military avionics with Chinese officials — in particular, early warning systems. He said the size of the Chinese market is difficult to gauge, but he envisages demand will be strong for many years.

The strength of the market will depend on the continuation of China's drive to upgrade its civilian and military air fleets, and the country's ability to develop its own aircraft, an ability that has been given priority.

SHIPPING REPORT

Lower oil prices help to increase tanker rates

BY ANDREW FISHER, SHIPPING CORRESPONDENT

TANKER RATES moved further ahead last week, as the continued low level of oil prices stimulated demand and led to more big tankers leaving their lay-up berths.

Imports of crude oil into the US east coast and northern Europe were also forecast to rise strongly in the next four years in a study by London-based Drewry Shipping Consultants.

Most of the increase would come from the Middle East. Drewry said total world tanker employment would rise to some 190m dwt in 1990 from 182m dwt in 1984 and a much reduced 164m dwt in 1985. The present crude oil tanker fleet is just over 200m dwt.

From the Gulf, rates took off last week past the top end of the Worldscale 20 range, where they have been stuck for many months, to reach Worldscale 35 for a 250,000 dwt vessel to the West.

Owners were also offering tonnage to charterers at rates of just under Worldscale 40 to Worldscale 45, said Galbraith's, the UK shipbroking firm. Low fuel prices have prompted owners to speed up their vessels, after the sharp rise in the 1970s led to slow-steaming to save costs and absorb the tonnage surplus.

The volume of available VLCC (very large crude carrier) and ULCC (ultra large) tonnage over 200,000 and 300,000 dwt respectively was the lowest for a long time, said E. A. Gibson Shipbrokers of London.

In the month to mid-May, it said the amount of laid-up tanker and combined carrier (able to carry wet and dry bulk cargoes) shipping fell from 32.3m dwt to 29.5m dwt, with VLCCs and ULCCs accounting for most of the decline.

The lower-laid-up figure reflected both further sales of ships for scrap—13 vessels of 1.25m dwt were sold to the scrapyards during the period—and others being brought back into service.

World Economic Indicators

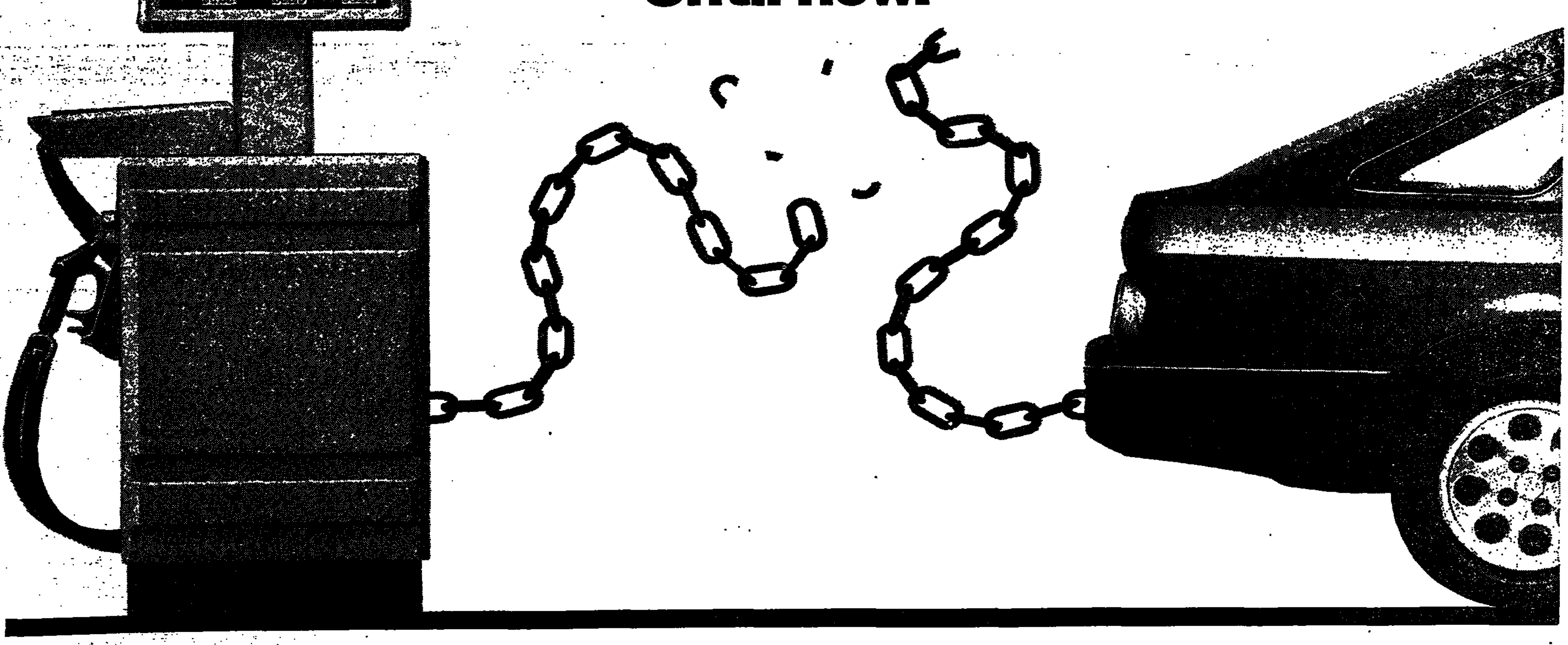
Foreign Exchange Reserves (US$m)

	Mar. '86	Feb. '86	Jan. '86	Mar. '85
US	13,965	14,283	13,318	7,041
UK	10,733	10,513	9,834	7,020
West Germany	39,867	41,000	39,653	32,101
Japan	23,540	23,193	22,769	22,479
Italy	13,370	13,259	12,204	16,737
Belgium	3,981	4,122	3,837	2,716
Netherlands	9,284	9,495	9,367	7,371
	Jan. '86	Dec. '85	Nov. '85	Jan. '85
France	23,836	24,319	21,502	19,102

Source: IMF

Petrol hasn't changed in fifteen years.

Until now.



Although there have been great advances in car technology, we're still using a petrol that gives a similar performance to one we were using fifteen years ago. But now Shell have developed Formula Shell, a new petrol that has been proved to increase the performance of your car, no matter what you drive. Firstly, it contains a new ingredient, exclusive to Shell, which provides faster, purer combustion making your car more responsive. Secondly, it contains a cleaning agent which reduces dirt in the important parts of your engine so making it smoother running. Together, these make your car more efficient. From today all petrol is not the same.

New Formula Shell. It will improve the performance of your car.

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

Grande école goes English

Paul Betts explains why France's leading business school is internationalising its curricula

VERY discreetly, a revolution is taking place at one of the venerable French "grandes écoles"—the institutions at the zenith of the French educational system which have groomed generations of French leaders in business, politics, public service, science and the arts.

The Ecole des Hautes Etudes Commerciales—HEC for short—was established more than 100 years ago. Now France's leading business school is about to embark on a highly controversial venture for an establishment whose basic mission, like the other grandes écoles, has been to promote and defend the interests of French business and culture. Starting next October, HEC will offer its classic two-year advanced business management course in English as well as in French. It will be the first time that one of the flagships of French higher education will run its curriculum for the most part in a foreign language.

"It's bound to provoke a fuss," acknowledges Jean Paul Larçon, the director of the business school. "But as a leading business school we can't survive if we don't adapt ourselves to realities," he explains. "Our aim is twofold," he adds: "to bring into HEC cultures which are not at present incorporated in the school and secondly to expose French students to the realities of an international environment."

Although other business schools in Europe like Bocconi in Milan and Barcelona have already experimented with English language curricula, the decision for HEC was much more difficult to take. "Many people will probably criticise us for undermining the French language and culture. Some will call it a retreat or a defeat," says Larçon.

Indeed, President François Mitterrand has campaigned vigorously to protect and promote the French language and culture. Only recently he went as far as suggesting that French should be able to replace English as the language used in computer sciences and information processing technologies.

Larçon says that the HEC English initiative, dubbed by the school as its "international track," would never have been possible five years ago. He recalls how HEC sent posters to Hong Kong four years ago to recruit students from the colony and from other Far East cities. But the French diplomatic authorities in Hong Kong sent the posters back because they were in English and not in French. "How could you be expected to encourage students from Hong Kong to come to do their advanced management studies here with French posters?" remarked Larçon.

But the HEC director, backed by the Paris Chamber of Commerce, which established HEC in 1881 and owns the school, believes that what HEC is now doing will help French business by making it more international and opening it up more to the outside world. The move is also the latest in a series of major evolutions at HEC during its long history to help the school stay at the top of the business school league.

Jean Paul Larcon: "It's bound to provoke a fuss"

HEC in 1964 was already a pioneer among French grandes écoles by deciding to decentralise itself and moving out of Paris to a lofty American-style campus at Jouy-en-Josas, near Versailles. It set up its own permanent teaching staff with a faculty of 100 professors. It adopted the Harvard Business School system of the case study approach but adapting it to French needs. Its teaching staff built up a major portfolio of 800 case studies, and students spent an increasing part of their studies with a company to gain first hand on the job career experience. The school also developed specialised courses in international affairs, exchanges with other leading business schools including Berkeley in California and the London Business School, and made foreign languages a compulsory part of the curriculum.

At a time when French business has become more than ever exposed to an international environment and market, the new all English course will not only give graduates who opt for it fluency in English but will also initiate them straight away into an international Anglo-Saxon cultural and business environment, says Larçon.

French students who choose the all English course will be exposed far more to international business and companies than in the traditional French language curriculum. Although the courses are fundamentally the same, the sequence of case studies will inevitably be different. This is because the French management programme is concentrated on a high proportion of French cases or international case studies involving French companies like Renault and American Motors Corporation (AMC), the US car company 46 per cent owned by the French state motor group.

"In the 1960s when HEC left Paris for its new campus, the idea was to try to build a French style business school with publications in French and a portfolio of French case studies. We have achieved this over the past 20 years. Now we must develop international cases," says one of the professors closely involved with the English language initiative.

Rather than studying Renault, students might devote as much if not more time looking at the problems of BL, Britain's state-owned motor group. Instead of studying the strategy of a large French conglomerate like the Compagnie General d'Electricite, the English curriculum is likely to concentrate more on foreign conglomerates like ITT. Moreover, students will also be encouraged to gain their on-the-job experience with a company abroad.

For HEC, the new initiative will also be a way of attracting top students and leading business professors from other countries to the school. Larçon seems especially keen to attract students from Japan and other parts of the Far East to do their advanced business management studies at HEC.

"If we work only in French, our overall student selection is inevitably limited, especially for students from Asia or Japan who need to work in English," he explains, adding: "We also want to attract people who want to come to HEC but can't because of the language problem." HEC's target is to offer about half the places of its new English curriculum to foreign students and the rest to French students.

Competition to enter HEC is at present very fierce—not surprisingly since every student is virtually guaranteed a good job even before graduating. Indeed, an average of 10 jobs is available for every student to graduate from HEC. Of the 12,000 graduates currently working about 2,000 are chairmen of companies. The chief executives of 10 of France's top 100 companies have also been to HEC.

But for all its fame in France, HEC is probably less well-known abroad than Insead, the European business school at Fontainebleau. "Because of its international image, many foreigners often think that the Paris business school is in Fontainebleau when it's in fact here at HEC," said an HEC professor.

In competition with Insead, HEC will also be offering a business management programme in English for experienced executives. This, too, has provoked some raised eyebrows. One of the organisers of the English course for executives said she had sent out letters in English to advertise the programme. "We received a number of angry letters back asking us why we couldn't write in French."

Advocate of the case study

FRANCIS LORENTZ at 44, relaxing in his neat modern office in the Avenue Malakoff in Paris, is the picture of the modern breed of French business manager—blending entrepreneurial spirit with the classic self-confidence of a French technocrat. Since 1982, Lorentz has been managing director of Bull, the French nationalised computer group, and the twin architect with Jacques Stern, the chairman, of the company's recovery and return into the black.

Lorentz, inevitably, is also a product of the grandes écoles. First he went to HEC "where I got a lot of practical knowledge, basic accounting training and a sense of the concrete" and then to the Ecole Nationale D'Administration (ENA), the stable of top French technocrats and public servants, where he learnt the art of synthesis and expression.

"HEC teaches you how to act while ENA gives you a macro-economic vision," he says. While he appreciated the practical and pragmatic approach of HEC he felt ENA offered him the intellectual satisfaction he lacked at the business school. "I came out of HEC a bit frustrated." But although ENA provided the intellectual satisfaction he was looking for he says that at ENA there is sometimes the risk that "form comes before substance." He adds that a brilliant expose did not necessarily mean that its proposals were practical or operational.

In many respects the most challenging and interesting part of his higher educational experience was preparing the entrance examination for the schools, Lorentz says. It takes one or two years, sometimes more, to prepare for entrance to a grande école. Lorentz chose HEC because the year of preparation involved more general subjects than for the Ecole Polytechnique which is also a stable for future French company directors. Although Polytechnique was, and sometimes still is, regarded as a school with more prestige than HEC among French grande écoles snobs, Lorentz says he could not have taken two or three years of solid mathematics which would have been his fate if he had opted for Polytechnique. "I had already found secondary education monumentally boring."

At HEC, Lorentz enjoyed the school's flexible and liberal structure. "It taught me the importance of the market, to respect financial balances without which everything will ultimately collapse, and the spirit of enterprise. In an enterprise you create and take risks; in the administration you essentially manage," he remarks.

He especially enjoyed his last year at HEC when the Harvard system of case studies was first introduced. He later spent a year tutoring at HEC and helping Didier Pineau - Valencienne, now chairman of the Empain-Schneider conglomerate, to develop the case study system at HEC.

After HEC and ENA, Lorentz spent his mandatory 10 years in the French administration. ENA graduates must all do 10 years in public service after graduating from school. He then went to work as deputy managing director of the Lyonnaise des Eaux, the large French water distribution group, before going to Bull.

If he had to start all over again, Lorentz says he would again apply for HEC. "But I'm not so sure about going back to ENA. I think I would probably pick a US business school after HEC this time if I had to do it all again now."

Lobbying

How and where to influence policy

THE BRITISH tend to be woefully ignorant about the way in which their political institutions work. That lack of knowledge about Westminster and Whitehall must be multiplied many times when it comes to knowing about who does what in the European Community's array of institutions. Even a government minister was heard recently to ask an aide for a quick teach-in on the role of the Commission—and he was taking part in a meeting of Community ministers.

Many businessmen, intent on meeting the day-to-day demands of management, simply do not have the time to work out the intricacies of the civil service hierarchy or the committee system at Westminster, let alone the corridors of power in Brussels. They pay their subscription to the Confederation of British Industry, trade association, chamber of commerce, and hope that these bodies will be their worthy representatives in negotiations with government.

Most of the time, that works. But what if there is a more specific matter which arises from the political and administrative processes? — for example, a bill going through parliament, or a directive about to be agreed by the Council of Ministers, which will have a direct impact on a particular company. Or, perhaps, that the businessman feels that he would like to try to influence government thinking in the policy preparation stage. Who should he approach? Which is likely to be the most effective route—civil servant, backbench MP, or the minister?

Some of the largest companies have specialists in government affairs—their job is to liaise with officials and politicians so that they know what is on the agenda, and help to ensure that their senior people will be given the chance to make their views known. But this is a luxury for the vast mass of companies.

Hoping to fill the knowledge gap are the publishers of a guide* called Government and Industry, which sets out to demystify the political process by straightforward explanations of the workings of the town hall, Whitehall, Westminster and Brussels. Probably the most useful chapter for businessmen is by Martin Smith, head of Parliamentary affairs at the National Consumer Council, who explains how and when to influence policy, and discusses issues such as when to use professional parliamentary and public relations services. He advises, for example, that consultants should never be used for presenting cases directly to ministers or officials.

The guide is edited by William Rodgers, who has decided sensibly that businessmen want more than explanatory essays. As the former head of a department — transport — which comes in for more than its fair share of lobbying, he gives advice on how to approach ministers and officials and who's who in their offices. Heads of divisions in the departments most likely to concern the business world are named, and telephone numbers given.

Frequently, however, these are only general switchboard numbers — the real enthusiast might feel better equipped on this score with the Civil Service Year Book, published annually by the HMSO, at only about one sixth the price of this guide.

The section on the European Communities explains the workings of the various institutions, lists the chef de cabinet to each Commissioner, and heads of the directorate-generals. It also lists Community directives, and proposed directives, particularly those that will affect companies. This is all information that could be obtained with a few phone calls to the Community's representative office in Britain, but obviously it helps to have everything neatly summarised.

For this you pay £70, plus £5 for the binder, which would cover a lot of check telephone calls. But the guide also has the merit of a loose leaf format, with easy signposting, and the opportunity to up-date information three or four times a year for which you pay £8 a time.

*Government and Industry, Kluwer Publishing, 1 Harlequin Avenue, Great West Road, Brentford, Middlesex TW8 9EW

Hazel Duffy

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UK NEWS

Murdoch considers initiative to end print dispute

MR RUPERT MURDOCH'S News International is considering a radical initiative to break the deadlock in the dispute over its new printing plant at Wapping, east London, Philip Bassett, Labour Editor, writes.

About 5,500 print-union members were sacked for going on strike over the move to Wapping. The unions have only about 10 days left to meet the company's May 30 deadline to respond to its existing offer of its Gray's Inn Road site in London, where The Times and The Sunday Times used to be printed, and of £15m compensation for those former employees unable to obtain work on any new paper printed by the unions there.

The indications are that the unions will be unable to meet the deadline. They are to meet formally for only the first time today Mr Frank Barlow, chief executive of the Financial Times, to discuss in detail their request to him to look into the feasibility of printings a Labour movement paper from the Gray's Inn Road plant.

The unions are setting in train a much longer, market-researched study into the possibilities of a new paper. The study will take nine months.

Mr Murdoch is thought to be unlikely to accede to such a timetable, particularly when he and the company have doubts that the unions would finally be able to deliver their membership's agreement. Signs of dissent within the unions are likely to emerge tonight when Ms Brenda Dean, general secretary of the largest union, Sogat '82, addresses a meeting of its London branches.

Mr Murdoch is understood to be ready to try a further, two-pronged initiative to resolve the dispute:

● The Gray's Inn Road plant could be up for sale on the commercial property market. It would relieve the company of an asset its senior managers are convinced it no longer wants.

● The compensation money – and there may be more on top of the £15m already offered – would be put into a trust fund. Sacked former employees would then be invited to apply individually for compensation money. Such a move would be resisted by the print unions and seen as a clear attempt to break their unity and collective actions.

The intention of the two moves combined would be to put pressure on the unions to reach a settlement, firstly by withdrawing in effect the current offer and secondly by making an appeal to union members over the heads of their leaders.

Both the company and some print-union leaders believe that it may become necessary either for Sogat to remove the union cards of some its London militants or for the Trade Union Congress to act as it did in the 1982 British Rail flexible rostering dispute with the train drivers' union Aslef, by finding a formula which would declare the dispute to be over.

Government faces embarrassment over Leyland Bus offers

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

THE UK Government faces further embarrassment over its attempts to return parts of BL, the state-owned vehicles group, to the private sector because three firm bids have now been made for Leyland Bus.

One of them is from a Leyland Bus management-led consortium which will be bound to attract support from many Conservative MPs whereas the Government's preferred solution is a sale to the Laird group.

This would allow much-needed further rationalisation of the UK bus manufacturing industry – particularly for double-deckers – to take place quickly.

Laird, which owns Leyland Bus's main UK competitor, Metro-Cammell Weymann, has also put in a firm bid, as has Aveling Barford, the construction equipment group.

At one stage it seemed the management consortium, including Mr Ian McKinnon, Leyland Bus managing director, might have severe problems finding financial backers. But it emerged at the weekend that the consortium is being advised by merchant bankers Kleinwort Benson.

Kleinwort said it would wait until the BL board made its decision before finalising funding for the consortium's proposals.

Although the bank did not say as much, this will save money should BL decide either in favour of one of the consortium's two rivals or, as was the case with Land Rover recently, not to sell Leyland Bus after all.

Mr Graham Day, who recently moved from British Shipbuilders to chairman and chief executive of BL, has said that all the negotiations about the return of various parts of the group to the private sector started before his arrival on May 1 would continue.

He is taking no personal part in the Leyland Bus deliberations, however, because he is a non-executive director of the Laird group.

Before Mr Day's arrival, BL also hoped to sell a majority stake in the Unipart spare parts operation to a group of financial institutions this summer – retaining a substantial minority stake, perhaps 39 per cent. In view of Unipart's importance to Austin Rover, [illegible].

There is also the first offer for Leyland Trucks and its associated parts operations from Lancashire Enterprises, the job-creation organisation owned by Lancashire County Council, to be dealt with.

This seems to have little chance of acceptance because the Government still has some hopes that General Motors of the US, which owns Bedford in Britain, will return for more talks about Leyland Trucks. Previous negotiations broke down when the Government insisted the Land Rover company could not be part of any deal with GM.

Whatever BL's decision about Leyland Bus, the company faces more cuts. The BL accounts, published recently, revealed a £18m provision for further rationalisation of the company.

Fiat makes return to executive car market

BY OUR MOTORING CORRESPONDENT

FIAT is to return to Britain's executive car market next month with the launch of the Croma, the Italian producer's first big car with front-wheel-drive.

Since the Fiat 130 was dropped in 1977, the group has not been represented in the executive sector in the UK. It is returning at a time when the sector is expanding – but mainly because a string of models is being launched.

Ford replaced Britain's best-selling executive car, the Granada, last year and still to come are a heavily revised Vauxhall Carlton and the Rover 800 from BL's Austin Rover subsidiary.

Last year 138,433 executive cars were registered in Britain, up from 128,854 in 1984. The top three best-sellers were the Ford Granada (28,054 sold), the General Motors-Vauxhall Carlton (19,520) and the Volvo 700 series (12,058).

Fiat hopes to sell about 2,500 Croma models during the rest of this year and between 4,000 and 5,000 in 1987. It is setting aggressive prices for the range – the three versions have list prices of £8,849, £10,149 and £13,500.

The Croma is one of a series of models derived from a co-operative venture between Fiat and Saab of Sweden.

Last year Fiat (not including Lancia) sold 54,480 cars in the UK for a 2.97 per cent market share, up from 47,563 cars

Brands Hatch acquired

BY LISA WOOD

THE FUTURE of motor sport at Brands Hatch and two other British racing circuits has been secured in a £5.25m deal.

Brands Hatch in Kent, Oulton Park in Cheshire and Snetterton in Norfolk have been bought by Mr John Foulston, chairman of Atlantic Computers, from Eagle Star Holdings, part of British American Tobacco.

Mr Foulston, a vintage motor racing enthusiast, has bought the racetracks in his personal capacity. He and his family will own 80 per cent of the shares, with the remaining 20 per cent held by the present managing director of the three circuits, Mr John Webb, and his wife.

The cash purchase ends months of speculation about the future of Brands Hatch and fears that it could be sold for property development.

Machine tool sales up 15%

Financial Times Reporter

SALES of machine tools in the British market in the three months ended February were 15 per cent higher than in the previous three months, according to Department of Trade statistics.

Despite a 10 per cent drop in exports during the period under review, the surge in home trade was enough to produce a net increase in sales of 4 per cent for the three months.

Government figures, published in the latest edition of British Business, show that new orders rose by 7.5 per cent and 2.5 per cent in the home and foreign markets, respectively.

Orders in hand fell by 13 per cent at home and rose 5 per cent in export markets.

Barclays set to conform system

By Alan Cane

BARCLAYS BANK is to standardise its middle tier international electronic banking operations on systems now being developed by Financial Information Services (FIS), a subsidiary of the US computer company Control Data (CD). The systems will run on minicomputers built by Digital Equipment of the US.

Last week the bank announced it had signed $6m agreements with FIS for the supply of software and services over the next three years. Total value of the project, including development cash spent by FIS and Barclays, is expected to be more than $15m.

The new system is expected to rely heavily on an advanced form of information store called a relational database.

UK NEWS

MPs urge Government to support shipbuilding industry

BY ANDREW FISHER, SHIPPING CORRESPONDENT

THE GOVERNMENT will come under strong pressure this week to act in support of the UK merchant and naval shipbuilding industry, which faces heavy redundancies because of the lack of new orders.

MPs from shipbuilding areas, mainly in Scotland and north-east England are today due to meet Mr Paul Channon, Trade and Industry Secretary, to discuss the crisis at state-owned British Shipbuilders, which last week announced 3,500 redundancies.

The Government is not thought likely to shift from its view that the worldwide difficulties of shipbuilding make it hard to justify special measures for the declining UK industry.

Wednesday's shipbuilding debate in the House of Commons is expected to be contentious as MPs express concern over the rundown of the industry. Shipyard workers have been voting this weekend over whether to agree to a token one-day strike on the same day as the debate.

The privatised warship yards are suffering from the slowdown in Ministry of Defence orders as a result of attempts to curb defence spending.

Swan Hunter, the Tyneside warship builder employing 4,500 people, is planning to tell unions of proposed redundancies. Recently, it lost a £130m order for a complex naval support ship to state-owned Harland and Wolff of Belfast.

Yesterday, Swan said failure to win this contract and the lengthy delay in the ordering of a promised Type 23 frigate were "of utmost concern to the entire company."

Swan was promised the warship order in January 1985 after Cammell Laird on Merseyside was awarded the last of the Type 22 frigates to keep it open after the depleted workforce had resisted strike action by militants.

Apart from Swan Hunter, which has said that up to 2,000 jobs could go by the end of next year, other privatised warship yards also face heavy job losses.

Competing with Swan and Cammell for future Type 23s will be Yarrow on the Clyde, Scotland, and Vosper Thornycroft in Southampton. Both yards need more work to avoid further job cuts.

Last week's defence White Paper (policy statement) did not hold out much hope of early orders for the yards. Swan is keen to obtain work on a new generation of amphibious craft but has received no go-ahead from the Government.

Swan's statement affirmed that the management of the yard was determined to keep it open. But it gave a warning that its short-term future was inevitably linked to the Government's defence procurement policy.

On the merchant side, Labour MPs are expected to press Mr Channon today for a package of measures to prevent further job cuts and the possible eventual disappearance of the industry.

British Shipbuilders is pursuing ferry and container ship orders in the UK and abroad but needs work immediately. Its new design for a naval support vessel, cheaper than those now available, would provide three years' work for one yard, if the Government placed an order.

Labour in bid to expel Militants

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

THE LABOUR PARTY will this week resume its bid to expel 12 supporters of the Trotskyite Militant Tendency. The last attempt collapsed in chaos when left-wingers walked out of disciplinary hearings being held by Labour's National Executive Committee.

Labour leaders, keen to see the end of a long-running source of embarrassment to the party, are confident that the latest hearings cannot again be scuppered by any left-wing procedural tactics and that they will end with the expulsion of the Militants.

Support for the strong stand being taken against the Militants by Mr Neil Kinnock, Labour leader, and other shadow cabinet colleagues came at the weekend from the Welsh Labour Party, meeting in Swansea.

Delegates demanded the expulsion of all Militant activists from the party and rejected resolutions condemning "witch hunts" against them.

Mr Kinnock, who again labelled the Militant supporters as "parasites on the party," has pushed through a rule change which should allow this Wednesday's meeting to proceed without further trouble.

In March, the NEC was forced to halt proceedings when seven left-wingers abandoned the meeting which had been called to hear charges against the Liverpool Militant supporters.

Eight other members had already been disqualified by the High Court from attending the inquiry because they had conducted the original investigation into the charges against Militant. Without a quorum, the NEC was forced to halt the hearings.

Alliance may face split on defence

BY OUR POLITICAL CORRESPONDENT

THE PROSPECT of a potential split within the Social Democratic-Liberal Alliance over Britain's future nuclear defence policy emerged at the weekend.

Dr David Owen, the SDP leader, told the Council for Social Democracy, his party's ruling body, that he remained committed to maintaining a British nuclear deterrent and to finding an eventual replacement for the UK's Polaris missiles, unless the two superpowers implemented a massive reduction in nuclear warheads.

But leading Liberals were suggesting at the weekend that Dr Owen's position would shortly be undermined by a joint report on Alliance defence policy commissioned last year by Dr Owen and by Mr David Steel, the Liberal leader, and due to be delivered in a few weeks' time.

They believe the Alliance report will suggest that Polaris should not be replaced when it comes to the end of its useful life, a conclusion which would be in direct contrast to SDP policy.

Professor Smith to quit House of Fraser

By Martin Dickson

PROFESSOR Roland Smith is leaving House of Fraser, the stores group, after six years as chairman – most of them spent fighting off a takeover threat from Lonrho, the conglomerate. His departure comes 14 months after House of Fraser was acquired for £615m by the Egyptian Al-Fayed family.

Mr Ernest Sharp, House of Fraser's deputy chairman, is also leaving.

The chairmanship of the group – which includes Harrods, the Knightsbridge department store – will be taken over by Mr Ali Fayed, one of the three Al-Fayed brothers.

The family recently announced that Mr Brian Walsh, the head of Australia's Davy Jones stores group, would take over as chief executive of House of Fraser on July 1. Prof Smith is expected to leave in the next few weeks.

A representative of the Al-Fayeds said yesterday there was no question of a rift between them and Prof Smith, who had done an excellent job in moving the group forward while fighting off Lonrho. He will remain a consultant to the family.

Prof Smith, 57, was quoted as saying that after six years in the job he wanted the opportunity to do something different. A professor of marketing at Manchester University, he is already chairman of Senior Engineering, Readicut International and Barrow Hepburn and holds several other directorships.

He was brought on to the House of Fraser board in 1980 to help to counter a threatened takeover bid from Lonrho, headed by Mr "Tiny" Rowland, which had built up a 29.9 per cent stake in the group. He successfully lobbied for a Monopolies Commission inquiry into a Lonrho bid.

Lonrho eventually sold its stake to the Al-Fayeds, who last year made a successsful bid for House of Fraser which was not referred to the Monopolies Commission. Lonrho could not launch a counter-bid because it was bound by undertakings not to do so given in 1982 at the time of the Monopolies Commission inquiry.

Employers press for Whitehall review of competition policy

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

THE CONFEDERATION of British Industry (CBI) will this week put pressure on the Government to press ahead with a wide-ranging review of UK competition policy and to clarify existing merger policy in the wake of the recent wave of large-scale mergers.

Such a review was promised by the Government earlier this year but has still not been formally announced. The delay has been caused partly by the pressure on the Department of Trade and Industry's time after the Westland and Land Rover affairs, as well as by Whitehall delays on the terms of reference for the review.

The CBI, however, has become concerned at these delays and at its council meeting on Thursday will call on Mr Paul Channon, the Trade and Industry Secretary, to start the review as quickly as possible.

Sir James Cleminson, CBI president, said yesterday: "CBI members are concerned about the interpretation of merger policy following the current outbreak of 'merger mania'."

He said: "Uncertainty about the application of restrictive practices policy, particularly in relation to collaborative ventures, has also increased the need for a review."

Sir James believes that one of the main tests of UK competition policy must be to encourage British companies to become more competitive in international markets. "Competition policy must also take account of the need for adequate protection for the consumer," he added.

"In view of the efforts to create a genuine 'internal' market within Europe, the review should look carefully at the scope for further integration of EEC and UK competition policies."

When details of the review are finally announced, it will be almost a decade since the Department of Trade embarked on a similar review. In 1977 the department appointed Mr Hans Leisner, an economic adviser, to head an internal review team to "consider the issues relating to a possible strengthening of competition policy." That review completed its work in 1978 and was followed by an investigation the following year into restrictive trade practice policy.

The most concrete result of those reviews was the 1980 Competition Act, which gave the Office of Fair Trading (OFT) extensive powers to investigate alleged anti-competitive practices in British industry.

The new review will almost certainly be carried out by a team of civil servants who will seek evidence from sources both within government and outside. The terms of reference are likely to be based on the structural changes in the concentration of ownership of British industry.

The review will try to evaluate how far merger policy was helped or hindered the restructuring of industry but will also look at other aspects of competition, such as the extent of monopoly power and anti-competitive and restrictive trade practices.

Although the review is expected to take at least a year to complete, it is understood that the review team may be asked to present an interim report on merger policy.

Probably the most important evidence will come from Sir Gordon Borrie, director general of the OFT, who is invested with wide-ranging powers to promote effective competition within the UK.

Sir Gordon is keen to see the review examine the merger activity although he points out that "competition is only one aspect of merger policy and the review will also have to be aware of cases where competition is not the determining factor in an investigation."

He does not forsee any major changes in merger policy. "The existing policy has, I think, been clarified by the number of large mergers, and I think we and the Government have come through a difficult period quite well," he says.

One problem area that has emerged, however, has been the OFT's practice of giving confidential guidance to companies before a bid is announced. In some recent cases of contested bid battles, OFT officials have felt that their advice may have been misused, such as to attract a "white knight" rival bidder. "Certainly we are becoming a bit more reluctant to offer confidential guidance," admits Sir Gordon.

The review is likely to concentrate on areas such as whether merger investigations can be speeded up. Although the OFT takes only three weeks to decide whether or not a bid should be referred to the Monopolies and Mergers Commission, the commission takes six months to reach its verdict.

UK NEWS

Britain's sea-sharers

Most UK fishermen do not earn wages; instead they receive a share of the boat's earnings. Robert Oakeshott reports

SINCE the dramatic days of the cod wars, and the subsequent exclusion of UK fleets from traditional fishing waters around Iceland and the Faroes, Britain's fishermen have attracted little attention. But now the old large trawlers, with their mainly wage labour crews, have largely disappeared, almost all remaining 15,000 fishermen are, in the new jargon, "revenue sharers" rather than wage earners.

If Mr Nigel Lawson, the Chancellor, is seriously considering tax concessions for profit sharing, then the experience of our fishermen deserves more attention.

There is nothing new about revenue sharing, or in the phrase popularised by Professor Martin Weitzman of the Massachusetts Institute of Technology, the "share economy" system of remuneration.

North of the borders it has been the established custom for as long as anyone can remember. But it was partly obscured, until the disappearance of the long-distance trawler fleets, by their conventional wage labour arrangements. In any case, it is only since the publication in 1984 of Professor Weitzman's book, *The Share Economy*, that the argument for revenue sharing has been properly considered. Indeed, many of us have only recently come to understand the concept and how it works.

Under the share system, workers do not receive a fixed wage, but a share of either gross or net revenue. Professor Weitzman argues that revenue sharing improves motivation and has beneficial effects on employment.

He says it will tend to reduce unemployment in a recession and to increase jobs faster during an upswing of the business cycle. A number of influential economists now accept Weitzman's claims for its employment consequences during a recession as well as its more obvious effects on motivation. But its virtues during an upswing are more problematic and have been challenged most notably by the Nobel prize winner, Professor James Meade.

In practice, some of the consequences of revenue sharing are remarkable. The average revenue share of Scotland's inshore fishermen fell by 45 per cent in real terms between 1977 and 1981 from just under £12,000 a year to just over £6,000. At the same time employment fell by less than 5 per cent from 7,625 to 7,373. On the face of it Professor Weitman's predictions about the system's employment consequences during a recesion are vindicated. And that is true, even if it is acknowledged that the 1977 figures were, for various special reasons, an all-time high.

However, it is not possible to test Professor Weitzman's predictions for the effect on employment during economic expansion — partly because recent statistics cover mainly a downswing and partly because of factors special to the Scottish fishing fleet. On the other hand it is possible, from the evidence of the last few months, to correct an impression otherwise conveyed by the table. The fishermen who work for revenue shares are not, as the table might suggest, accepting a system where the risks are all to their disadvantage. For example at the moment they are benefiting considerably—perhaps by as much as 10 per cent of their earnings—from the oil price collapse.

To understand how this is happening we need to be clearer about the workings of the system and about how the figures in the table are calculated.

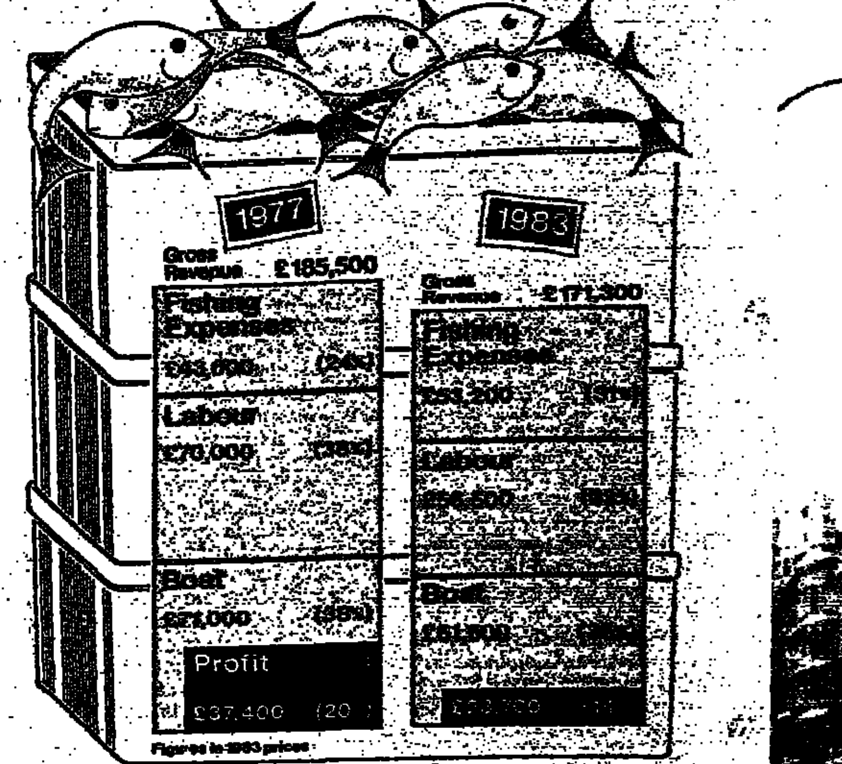
In fact two kinds of share system are operated in the UK inshore fishing fleet. On English and Welsh boats the share of each firsherman is normally a percentage of gross revenues. For example, J. Marr and Son, one of the few remaining corporate owners of English fishing boats, operates a "gross" system on its five largest fishing vessels. For a standard crew of 11 or 12, shares per £100 of gross revenue range from £5.60 for the skipper to £1.60 for the cook and a team of six deckhands. In between, the mate will receive £3.50 and the chief engineer and the bosun each £2.20. If there is a trainee deckhand (perhaps on a YTS course) this is covered by an extra share of 0.75p per £100. The workforce's overall share of gross revenue will thus amount to rather less than 25 per cent.

The second type of revenue sharing, based on net revenue shares, is now almost universal in Scotland's inshore fishing fleet and is increasingly common in England and Wales. In theory, its workings are simple: what are conventionally accepted as "fishing expenses"

If the Chancellor is serious about profit-sharing, then the experience of our fishermen deserves more attention

are first deducted from gross sales revenue to arrive at a net figure. This sum is next split into two equal parts. The first, an aggregate "labour share" is divided equally among the crew regardless of rank. The second goes to cover the expenses of the boat, or sometimes in theory to both the boat and the nets. After this, any profit remaining belongs to those partners who have shares in the vessel. In Scotland's inshore fishing fleet these last always include the skipper, almost always the mate and often other crew members as well. Members of the crew who are also partners will thus receive a double share-out, first as workers, secondly as partners sharing any profits.

The tables show the operation of this net revenue sharing system between 1977 and 1983. As well as the fall in the value of labour's share between 1977 and 1983 the tables highlight two further points. First, net revenue is not always split exactly 50:50 between the labour share and the gross boat share. There is some degree of flexibility about this division and in the most modern vessels expensive equipment may necessitate a share of over 50 per cent for the boat. Second, "profits" fell proportionately far more than labour's share between 1977 and 1981. Given that these are trading and not pre-tax figures and that it is only via his share in those profits that the skipper can take home more than a deckhand, it follows that skippers' earnings—and others such as mates who were also partners in the boat—fell most sharply during the recession.



The tables show how the fishing revenue of an average Scottish in-share boat was divided between expenses and the six-man crew

Against this background of relative sacrifice, which has in effect enabled the Scottish inshore fishing fleet to weather the recession, it is agreeable to note that the entire workforce will benefit from the fall in the oil price. Fuel is the largest single expense in fishing and until the last few months accounted for 50 per cent or more of fishing expenses. In late March J. Marr and Sons was paying £100 a ton for diesel oil which cost £280 a year earlier. The price fall will benefit Scottish inshore fishermen because their share system is based on net rather than gross revenues.

J. Marr and Sons is unusual as the only corporate owner of a small number of large vessels working out of English ports and operating a gross revenue sharing system. Its subsidiary Peter and S. Johnston of Aberdeen has a minority share in 28 smaller Scottish boats and acts as agent for a further 12 all of which use the net revenue sharing system.

According to Mr Charles Middleton, Peter and S. Johnston's managing director, the latter system, provided that the skipper is a substantial partner in the boat, produces the best operating results. It can also, he adds, be more than acceptably profitable to outside corporate partners with minority shares.

What about the views of the deck hands? The steep fall in earnings between 1977 and

This background of relative sacrifice has in effect enabled the Scottish fishing fleet to weather the recession

1981 produced some muttering against the system. That is scarcely a surprise, especially as a deckhand may return from a particular trip out of pocket although his share over a year remained positive even during the worst of the recession. On the other hand there is a suggestion, both in Hull and Aberdeen, that some fishermen see the positive as well as the negative aspects of fluctuating earnings. Some see the gambler's excitement as a positive attraction. If the Chancellor decides to grant favoured tax treatment to revenue sharers, he can only increase the numbers who will be attracted by "a bit of a gamble."

Robert Oakeshott is executive director of Job Ownership Ltd. The work on which this article is based was financed by Partnership Research Ltd, an independent charity.

This week in Parliament

TODAY

Commons: Remaining stages of the Social Security Bill.

Lords: Ullapool Harbour Order Confirmation Bill, Third Reading. Armed Forces Bill, Committee. Gas Bill, Committee. Corneal Tissue Bill, Second Reading. British Shipbuilders (Borrowing Powers) Bill, Second Reading.

Select Committees: Home Affairs: Sub committee on race relations and immigration—Subject: Racial attacks. Witnesses: Metropolitan Police, Association of Police Officers. (Room 6, 4.15 pm). Public Accounts—Subject: Preventative medicine: General Dental Service. Witnesses: Sir Kenneth Stowe, DHSS (Room 16, 4.45 pm). Treasury and Civil Service—Subject: Long term trends in resources and public spending. Witnesses: Treasury officials (Room 15, 4.45 pm).

TOMORROW

Commons: Remainder of the Social Security Bill. Debate to approve the first report from the Privileges Committee 1985-6 on The Times/Richard Evans case.

Lords: Drainage Rates (Disabled Persons) Bill, Committee. Education Bill, Report. Horticultural Produce Bill, Second Reading.

Select Committees: Education, Science and Arts—Subject: Prison Education. Witnesses: NATFHE, HM Inspectors of Schools (Room 8, 10.40 am). Standing Orders—Subject: Channel Tunnel Bill (Room 15, 11 am). Parliamentary Commissioner for Administration—Subject: Reports of the Commissioner. Witnesses: Mr C. France, Mr B. Taylor and Mr M. Whippman, DHSS (Room 8, 4.30 pm). Defence—Subject: Statement on defence estimates 1986. Witnesses: To be announced. (Room 16, 4.50 pm). Committee on a private bill—London Docklands Railway (City Extension) (Room 6, 11 am).

WEDNESDAY

Commons: Until 7 pm. Second Reading of the Legal Aid (Scotland) Bill followed by a debate on a motion taking note of the situation in the shipbuilding industry. Motion related to the Town and Country Planning (Nirex) Special Development Order.

Lords: Debate on the case for large scale investment in the water industry. Housing (Multiple Occupation) Bill, Committee. Surrogacy Arrangements (Amendment) Bill, Report. Unstarred question on the ability of the homeless to secure and pay for bed and breakfast accommodation.

Select Committees: Foreign Affairs—Subject: UK relations with South East Asian countries. Witnesses: South East Asia Trade Advisory Group, DTI officials (Room 15, 10.30 am). Trade and Industry—Subject: BL annual monitoring. Witness: Mr Graham Day, BL chairman, and officials (Room 17, 10.45 am). Defence—Subject: Statement on defence estimates 1986. Witness: to be announced (Room 16, 10.50 am). Energy—Subject: Coal Industry. Witness: Professor Tweedie and Professor Cooper (Room 8, 11 am).

Employment—Subject: Discrimination in employment. Witness: Mr Michael Heseltine (Room 6, 4.15 pm). Home Affairs—Subject: Domestic growth of opium poppies. Witness: Mr David Mellor, Home Office Under-secretary (Room 19, 4.15 pm). Public Accounts — Subject: Shipbuilding Grants. Witness: Sir Brian Hayes, DTI (Room 16, 4.15 pm). Defence—estimates. Witness: to be announced (Room 8, 4.30 pm). Foreign Affairs—Subject: Foreign Office and Overseas Development Administration and supply estimates. Witness: Foreign Office (Room 15, 5 pm). Committee on a private bill—London Docklands Railway (City Extension) (Room 6, 10.30 am). Unopposed bills—Aberystwyth Harbour; Harrogate Borough Council (Room 9, 4 pm).

THURSDAY

Commons: Sex Discrimination Bill, Second Reading.

Lords: Public Trustee and Administration of Funds Bill, Committee. Airports Bill, Committee. Housing (Scotland) Bill, Third Reading. Drug Trafficking Offences Bill, Third Reading.

Select Committee: Committee on a private bill—London Docklands Railway (City Extension) (Room 6, 10.30 am).

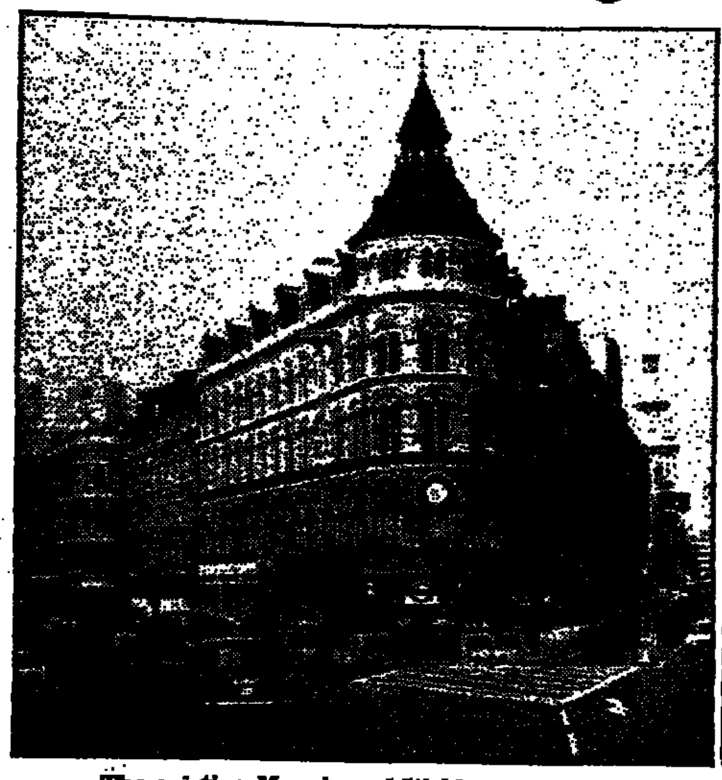
FRIDAY

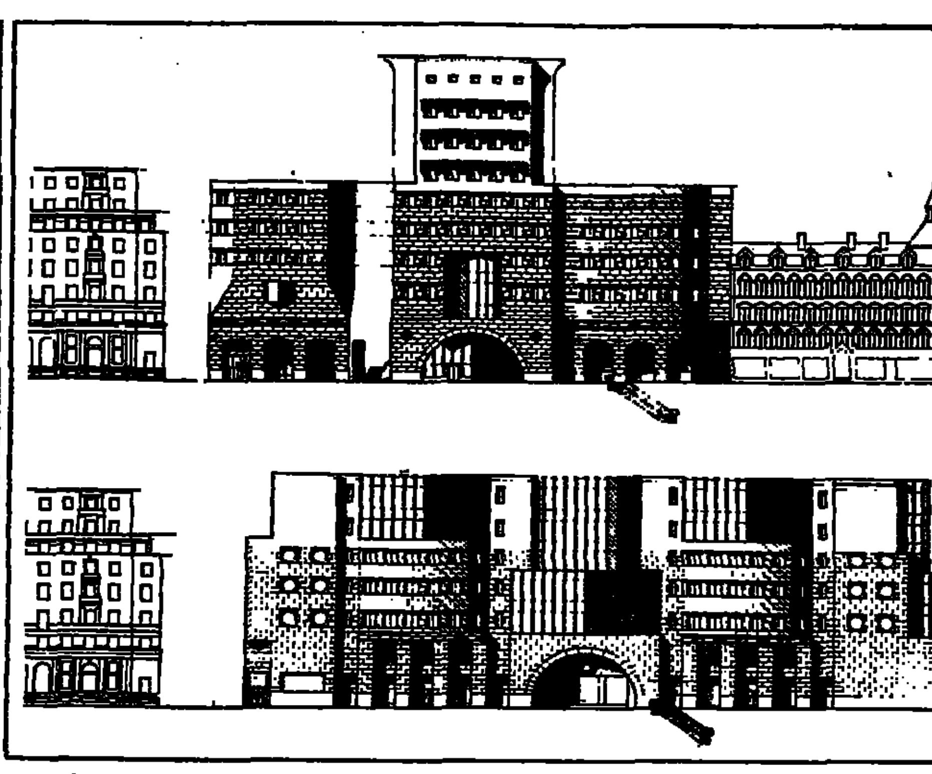
Commons: Debates on the motion for the adjournment.

THE ARTS

Architecture/Colin Amery

Civilised changes for Mansion House Square





The existing Mappin and Webb premises and the two versions of James Stirling's scheme for the Mansion House Square site
TOP: the Queen Victoria street elevation retaining Mappin and Webb
BELOW: The alternative without Mappin and Webb

The City of London has the rare opportunity to acquire an important and intriguing work of architecture by James Stirling—provided the Planning and Communications Committee and the conservation societies have the wit to see the real virtues of the latest proposals for Mansion House Square.

There are several remarkable things about the whole saga of Mansion House Square. The most striking is the persistence and constructive stance of the developer, Mr Peter Palumbo. Despite the fact that for an unimaginably long period he had longed to build the tower and square designed for him by Mies van der Rohe, he is determined to fight and survive the public inquiry's verdict of no confidence in his "stump."

He deserves to succeed with this new application, not as a reward for diligent perseverence, but because he has had the confidence to choose an architect who has a difficult reputation but is undoubtedly the most original designer working in Britain.

It is too easy to dismiss any proposal on this site because it is in a conservation area and the loss of 19th century listed buildings may be significant. However, in his report almost a year ago, Mr Patrick Jenkin, the then Secretary of State, said he did not rule out redevelopment on the site, "if there is an acceptable proposal for replacing the existing buildings."

He laid the foundation for a good *new* building, and made the next planning decision one which would be based upon architectural quality alone. Mr Palumbo has put before the City committees and officials not just one scheme but a civilised choice of approaches.

There are two schemes, prosaically known as A and B. Scheme A retains the Mappin and Webb building—a familiar and loved triangular building with a turret and conical tower roof. This corner block, designed by a good Victorian architect, Belcher, has interesting Gothic details and fenestration, and is probably the best listed building on the site. It will be an intricate exercise to retain this corner block—it is not in good repair and will be considerably undermined by the new concourse.

Mappin and Webb acts as the prow of a composition that steps up to a tower that is some 152 feet high. On Poultry and Queen Victoria Street the large building appears to be articulated. The top of the tower is a large curved cornice, not unlike some American city buildings that have stone or lead cornices to enliven the roof level. The materials for the entire scheme are varieties of Portland stone up to the tower level and on the tower itself the stone is smooth.

Scheme B demolishes all the listed buildings on the site and settles for an all-over height of seven storeys. To replace Mappin and Webb, James Stirling has designed a new prow for the site, at the base is a strong stone arch and there are echoes of the old turret in the tall curved glass corner. With no central tall tower, the triangular block is strongly articulated on both the street elevations. In common with the A scheme the street levels are strongly detailed colonnades and giant arches.

An underground shopping concourse, shops at street level and a new public house are common to both schemes. Both schemes also have a processional route through the site through an open stone circular court into which opens a grand stair. Both schemes are distinguished and mature works by James Stirling. They are rich in references to the immediate surroundings, they have the strength and duality of the neighbouring Hawksmoor church of St Mary Woolnoth, and offer a potent strength that is entirely appropriate to this stone heart of the City.

James Stirling has, up to now, built his best architecture abroad. He understands the informal monumentality of the City of London and is himself aware of exactly the kind of *gravitas* needed for this key site. It should be a positive pleasure for the City fathers to grant immediate planning permission for this scheme—in either form—so that construction can begin with no further delays. The two schemes will be on show in the Guildhall from June 2.

Carmen/Covent Garden

Richard Fairman

Over the years this Carmen has lost much of its local colour. Neither the mule nor the women with their washing go about their work in Seville, and the brawl of the cigarette girls has become a pretty tame affair. Dead wood of all kinds—scenery that wobbles, rusty French accents, a short-breathed flute solo—has slowly accumulated.

To some singers this might be a damper, but not the combustible partnership of Agnes Baltsa and José Carreras, much praised in the opera in the past. For Baltsa, in particular, Carmen must surely mark a high point in her career. Like Galli-Marié, the role's creator, she has taken possession of the part by force, a vivid recreation of "*la terrible Espagnole* who leaps like a tiger-cat and writhes like a snake."

Of all recent Carmens, she is the most brazenly physical. It helps, of course, that she looks the part with her slim, wiry body and gypsy-dark eyes; but even with that advantage there can be few singers who would dare actions like the hypnotically slow first advance on José, or her playful skip away afterwards. She risks extremes, of humour and vulgarity, of passion and contempt, and always gets away with them.

The rapport with Carreras is important. In their performances round the world these two artists have probed to the very core of the drama. How powerful, for instance, is the moment at Lillas Pastia's when Carreras turns on her roughly and Baltsa reacts with shock, a look of distant terror across her face, hands clasped to her throat—a Carmen who has heard the "fate" motif in the orchestra and knows its meaning.

They play the piece on a large scale. Both of them are tuned to the needs of venues where grand opera flourishes (Karajan's Salzburg, the Met to follow) and inevitably they bring with them little of the fine detail that the Opéra-Comique would have fostered in Bizet's day. Straight verismo singing is the order of the day and Baltsa has a fondness for the chest register (a rasping, insolent sound) that brings some ungainly, ill-tuned moments.

This is not to be found, for the most part, in the supporting roles. Marie McLaughlin, following on her success in the part at Glyndebourne, is a positive Micaëli; and Gino Quilico, cutting a dashing figure as Escamillo, brings a strong, open, bright baritone voice and much bravado to the Toreador's song. Lillian Watson and Claire Powell gave their Carmen decent support as Frasquita and Mercedes.

Mark Ermler, making his debut with the Royal Opera, kept support from the pit brisk and taut, no matter how heated the passions on stage became. It is possible to imagine a very different *Carmen* from this: one with Gallic grace and lightness, blending song and dialogue with an ease that was never really found here. But that would deprive us of Baltsa and Carreras, whose blazing intensity nobody would want to miss.

Real Dreams/The Pit

Michael Coveney

It is down to the Barbican bowels and back to the Sixties in this late substitution in the Royal Shakespeare Company small house repertoire. Trevor Griffiths' play, based on Jeremy Pikser's story *Revolution in Cleveland*, is both a study and a denunciation of a Cleveland student collective which failed to impress the local Puerto Rican community with its revolutionary fervour.

Whatever the virtues of the piece—and this is by no means major Griffiths—Ron Daniels's production, mumbled and apologetic, seems only too aware of the remoteness of the topic. Unlike David Edgar's *Maydays*, there is no placing of the old radical politics in a contemporary context.

These are familiar messages in bottles, washed up on a dismal scenic shore (designed by Russell Craig) of orange boxes, floral skirts, denim, communal carpets and a battery of ineffective TV screens (nine as opposed to Trevor Nunn's 128 in *Chess*) on which we see, just about, the strafing and bombing of Cambodian villages, the crying of napalmed infants, the beating of protestors at the Pentagon and in Chicago. The year is 1969 and Brian Jones has just killed himself in his swimming pool.

The key line is the group leader's (Gary Oldman) lament that "smashing the liberal under the skin takes time." As in *The Party*, Griffiths sets up a dialectical debate within the enclosed group on the nature of revolutionary action. The point here is that, between personal squabbles, macaroni salads and "self-criticism" sessions, these people are doomed by the mediocrity of their political aspirations, their ludicrous self-importance.

The Puerto Rican contact

Alastair Muir

Vincent Ebrahim

Ramon (Vincent Ebrahim) urges a symbolic destruction of the A & E store and goads them into action by insulting them in torrential Spanish. The People's War backfires when a gas station raid, en route to the store, is bungled, and the second act pins the commune under individual spotlights while the members arm to resist the scornful attack of folk they set out to convert.

Here we learn how Karen (Michele Costa) found reason for living in the movement after a dull marriage; how Garry Cooper's Che Guevara clone set out to revenge his father's loss of dignity working for capitalism and the Ford Motor Company; how the hesitant intellectual Sandler (Adrian Dunbar) is allowing his political will to be eroded by the love of a woman he has lost to the more glamorous West Coast student uprising and Black Panther scene.

These are characteristic Griffiths topics, but they are not welded into anything dramatically coherent. The stage temperature is depressingly low and the silliness of the people themselves an insurmountable obstacle to taking them seriously. Griffiths is a major writer and it is sad indeed to see him presented so listlessly in the persistently damaging—to company and writers—RSC small house for new writing policy.

Cannes Film Festival/Nigel Andrews

Box-office opportunism threatens Mission's success

What ever has happened to Cannes this year? After two years of rainswept austerity, when good weather and good parties seemed equally scarce, the place has gone berserk. Sunshine and beanfeasts abound, and even some enjoyable films.

The critic has no sooner seen his morning film than he is catapulted onto the blazing beach for a buffet. He has no sooner downed his midday champagne and canapes than he is propelled back into the darkness for two more high-quality films. Then it is once more unto the beach to meet more people and more food. Then another film. Then it is evening and he is hurled again into the social fray donning a suit or *le smoking* for a late-night banquet.

If you meted out this pace-that-kills treatment to a laboratory rat, it would have a short happy life before dying of a heart attack. Fortunately critics are not rats, except in the opinions of some prejudiced film-makers. We have the stamina of race-horses and we aspire to the clairvoyance and native wisdom of racing tipsters. My tip for immortality among this year's films is Tarkovsky's *Sacrifice*, on whose splendours I reported last week.

But if the second half of *The Mission* had matched the first half, this long-awaited British epic would have run it close. The film may yet, given a Sydney Polack-led jury unlikely to swoon over Tarkovsky, share or scoop the Golden Palm. Robert Bolt's screenplay gives us a Spanish slave trader (Robert De Niro) converted to Jesuit beliefs after a series of tempestuous vicissitudes in 18th century South America.

Roland Joffe and Chris Menges, director-photographer duo of *The Killing Fields*, make something magnificent of De Niro's passionate crime (a brother killed in a love quarrel) and of his ensuing penance: as he treks under Irons's eye through jungles and up mountains, carrying a huge sack of weaponry behind him, a Conquistador Sisyphus. The images are spectacular. And meanwhile Bolt's cunning tale of clashing imperatives—church versus Church, conscience versus realpolitik, Christian love versus righteous anger—is measured out in laconic dialogue which Joffe directs superbly, like the drip of water on human souls.

But if the threat to the mission comes from State and ecclesiastical tyranny across the Atlantic, the threat to *The Mission* comes from box-office opportunism on both sides of the ocean. The climactic and mandatory battle scenes are clumsily staged and almost totally peripheral to the story's tensions, which are less about a clash of arms than a clash of souls. And a final symbolic coda of please-the-paying-public optimism is tacked on—surviving natives fishing the wreck of a floating violin from the river, words of hope from the Catholic emissary (Ray McAnally)—as if the naked truth of man's cruelty to man, and God's mysterious aloofness to it all, were more than the world's Odeons and ABCs could bear.

*

Franco Zeffirelli has also yielded in his time to audience-sweetening: notably in *La Traviata*, an opera film whose heroine suffered from conspicuous consumption and so did its production values; over-lavish, over-sentimental, over-treacly.

With *Otello*, by contrast, we are in Crete, Barletta and Cinecitta Studios for a magnificently clean-eyed and clean-lunged movie. Placido Domingo, Katia Ricciarelli and other Renaissance-clad warblers are steered through the monumental masonry, Lorin Maazel vigorously conducts, and Zeffirelli directs at such a vivid pace that one forgives him the occasional lack of subtlety and more than occasional cut (no Willow Song, no act 3 ensemble). Domingo is sensational in the main role: if a singer can comport himself like this after a double hernia, let us please fill the hospitals with international tenors.

*

Into the category of convulsive curios leap Alex Cox's *Sid And Nancy* and Spike Lee's *She's Gotta Have It*, midfest offerings from the directors' fortnight. The first, after Cox's sleekly scat debut with *Repo Man*, is disappointingly shambolic, as it narrates the tale of Sid Vicious (Gary Oldman) and his girlfriend Nancy (Chloe Webb) as they puked, yowled and rampaged their way across the world. It could have been a great anarchic tragicomedy (*A Star Is Born* meets TV's *The Young Ones*). But instead it is clunking, noisy and interminable, like being walked over for two hours by a pair of vomit-stained bovver boots.

She's Gotta Have It is also about life at the bottom of the barrel: A Black girl's jugglings with three black lovers in penniless Harlem. But Spike Lee directs for pinbright comedy, like a blacked-up Woody Allen, and himself plays the skinny, huge-spectacled, jive-talking boyfriend who does not get the girl but does get most of the laughs.

*

Meanwhile there is my nomination for the coveted Plastic Palm Award, given each year to the film you would least like to take to a desert island. This must be fought over between Andre Techine's uproariously ludicrous thriller *Le Lieu Du Crime* (runaway convicts, philosophising grandmas, teenagers in crisis, plot-catalysing thunderstorms). Mohammed Lakhdar Hamina's *The Last Image* from Algeria (runaway teachers, camels in crisis, plot-catalysing heatwaves) and Mrinal Sen's *Genesis* from India. But no, I shall not be unfair to this last.

The Spanish Lady/St John's, Smith Square

Richard Fairman

There were always people pressing Elgar to write an opera. When he did finally start one, it was not the setting of some King Arthur legend that many had hoped would found an English tradition in music drama like that of Wagner, but the far more personal choice of a Ben Jonson play—and that was at the very end of his life. When he died, the piece was still unfinished, a mass of jumbled fragments and sketches.

Enough remains to make up about 45 minutes of performable music. The sketches, in varying degrees of completion and always unscored, have been edited by Percy M. Young to the point where a publication is planned by Novello's in 1988 and it was this version that was given by the City University Symphony Orchestra, taking the rare chance for an Elgar world premiere. Lovers of the composer will have known in advance not to expect too much.

What remains, however, does open a hitherto unknown page of Elgar's musical biography. In these short sections are some of the important moments of the opera, including a final chorus of autumnal warmth and very attractive brief love duet, well written for the voices. Everything is unmistakably Elgar, both as harmony and melody, though there are few signs that it could have provided an original and striking operatic score, especially as late as the 1930s.

The music rarely finds a distinctive tone to match Jonson's play of politics and morality. Its two most successful parts—and this is perhaps no coincidence — come from ideas hatched much earlier in Elgar's lifetime: a duet for the corrupt Meercraft and his stooge Everill, built up from a clever mix of sinister and comic motifs, has its origins in *The Kingdom* and the flamboyant Spanish sarabande was drafted as early as the 1870s.

Elgar wrote the strings some devilish scales in this piece and the student violinists of the orchestra found them something of a struggle. Otherwise their playing under Cem Mansur was decent enough, its main problem being a tendency to drown the Guildhall School of Music's singers. The soprano Roisin McGibbon and Bryn Jones, as the second-hand clothes dealer with a character-ful little solo, came through strongly. Much of the text elsewhere was lost.

In the second half the programme included a rare performance of *Lutoslawski's Variations on a theme of Paganini*, an early piece of virtuoso piano writing later scored with orchestra, in which the soloist Malcolm Troup made a strong and positive appearance.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Music

May 16-22

PARIS

Nouvel Orchéstre Philharmonique de Radio France and the Radio France choir conducted by Marek Janowski: Schumann scenes from Faust (Tue, Thur). TMP-Châtelet (4233 4444).

Murray Perahia, piano: Schumann, Britten, Berg, Beethoven (Wed). Théâtre des Champs Elysées (4723 4777).

Groupe Vocal de France conducted by Michel Tranchant: Debussy, Xenakis, Hugues Dufourt (Wed). Centre Georges Pompidou, Grande Salle (4278 7995).

Suzanne Chaisemartin, organ: Franck, Tournemire, Jean Langlais, Marcel Dupré (Thur). Sainte-Clotilde Church (4524 1516).

Merlet, piano, and Ensemble Orchestral de Paris, soloists: Mozart (Thur). Salle Gaveau (4563 2030).

NETHERLANDS

Amsterdam, Concertgebouw. Anton Kersjes conducting the Netherlands Philharmonic, with Miriam Fried, violin. Beethoven (Tue). The Cologne Rundfunk under Heinz Gesse and Jan Stülen, with vocalists. Nicolai, Lortzing, Offenbach, Léhar (Thur). (71 83 45).

Utrecht, Vredenburg. Recital Hall: The Schönberg Ensemble under Reinbert de Leeuw, with Dorothy Dorow, soprano. Dallapiccola, Webern, Schönberg (Wed). The Mendelssohn Trio, with Isabelle van Keulen, violin. Ravel, Fauré (Thur). (31 45 44).

LONDON

London Soloists Chamber Orchestra conducted by David Josefowitz with Mayumi Fujikawa, violin. Mozart. Queen Elizabeth Hall (Mon). (928 3191).

Philharmonia Orchestra and Chorus conducted by Simon Rattle with Elisabeth Söderström, soprano. Poulenc, Messiaën and Ravel. Royal Festival Hall (Mon). (928 3191).

English Chamber Orchestra conducted by Raymond Leppard with Cho-Liang Lin, violin. Stravinsky, Mozart, Saint-Saëns and Mendelssohn. Barbican Hall (Mon). (638 8891).

SPAIN

Barcelona, Musica Antiqua Festival continues: Monday: Gothic voices conducted by Christopher Page; Wednesday: José Miguel Moreno playing vihuela and guitar. Centre Cultural de la Caixa, Salo del Tinell, Plaza del Rey (301 11 04).

Leningrad Philharmonic Orchestra: Monday, Murcia's Polideportivo, Tuesday, Seville's Iglesia del Salvador; Wednesday, Colegio, and Thursday, Barcelona's Palau de la Musica Catalana. Amadeo Vives 1. (317 99 82).

VIENNA

Judith Williams, soprano, Ruth McGuire, organ. Bach, Händel, Mendelssohn. Karlskirche (Mon).

Alban Berg Quartet with Elisabeth Leonskaya, piano. Haydn, Bartok, Schumann. Konzerthaus Schubert Saal (72 12 11). (Tue and Wed).

TOKYO

Homero Francesch (piano): Scarlatti, Ravel, Brahms. Tokyo Bunka Kaikan Recital Hall. (Tue). (237 9990; 980 6060).

Helmut Deutsch (piano): Beethoven, Debussy, Bartok, Franck. Ishibashi Memorial Hall (Wed). (235 1661).

The Cleveland Quartet: All-Bach programme. Yaesu Negu Hall, near Tokyo Station. (Thur). (271 1227).

NEW YORK

Bargemusic (Fulton Ferry Landing): Chamber music with Hamao Fujiwara, violin, Shigeo Neriki, piano, Lucy Shelton, soprano, Fred Sherry, cello. Beethoven, Shostakovich, Mendelssohn (Thur). Brooklyn (624 4061).

WASHINGTON

National Symphony (Concert Hall): Hugh Wolff conducting with Men of the Oratorio Society of Washington, directed by Robert Shafer. Beethoven, Stravinsky (Tue); Mstislav Rostropovich conducting, Milton Stevens, trombone, Loren Kitt, clarinet, Dotian Carter, harp, John Martin, cello. Lumbye, Parris, Weber, Debussy, Boccherini, Ravel (Thur). Kennedy Center (254 3776).

CHICAGO

Chicago Symphony (Orchestral Hall): Kurt Mazur conducting, Edith Wiens, soprano, and Chicago Symphony Chorus. Bach, Grieg (Thur). (235 8111).

Saleroom/Antony Thorncroft

Newbury in the news

Around 1770 Sir Robert Burdett commissioned Thomas Chippendale to supply furniture for his new house at Foremark in Derbyshire. He paid £1,288 for the items. Next Wednesday Dreweatt's of Newbury is selling off the furniture of the last of the line, Sir Francis, who died in 1951. The saleroom believes that it is offering genuine Chippendale: the expert on the Master, Christopher Gilbert, is more reluctant to commit himself.

Whatever the truth of the matter this is one of the best collections of furniture to be sold by a provincial saleroom for many years. A George III carved giltwood overmantle, which the catalogue describes as "probably by Thomas Chippendale," carries a modest estimate of £30,000-£40,000.

A suite of George II beech framed seat furniture, comprising two window seats and six open armchairs, very similar to Chippendale designs, is on offer with equally conservative estimates of £9,000 and £15,000. It will be up to the trade to decide. The most expensive lot is a set of eight George II mahogany chairs, perhaps of Irish origin, which carry a £60,000 top estimate. Dreweatt's estimates that the sale will bring in £300,000.

There are no doubts about the paintings offered at Sotheby's Modern British auction on the same day. This is one of the most buoyant of the art markets, particularly the work of the Newlyn School. High prices at past sales have brought out three paintings by Harold Harvey, two with top estimates of £30,000 and one at £15,000.

Both Phillips and Christie's are taking advantage of the hundreds of chess enthusiasts who will be in London this week for the International Chess Collectors' Conference. Tomorrow Phillips is offering 80 chess sets ranging over three centuries. The most expensive is a rare amber set probably made in Germany around 1700, with an amber board: it could make £20,000. At the other extreme a 19th century English ivory set should cost less than £100. At Christie's a Staunton ivory presentation set in a fitted case by Jaques of London carries an £8,000 top estimate. Cheaper items are available at Christie's South Kensington today.

Three unusual items appear among the dolls at Sotheby's collectors sale tomorrow—erotic dolls, complete in every physical detail. Two, one male and one female, date from the mid 18th century, and should sell for £5,000, while a large 19th century Japanese prostitute doll carries a £1,500 top estimate.

LONDON STOCK EXCHANGE REFORM

Draft dealing rules stir up controversy

BY BARRY RILEY

LONDON stock exchange market makers are arguing over new dealing and disclosure requirements set out in the draft rules covering the new system of trading following next October's Big Bang changes in the markets structure.

Particular controversy surrounds Rule 360.3, which refers to the requirement for market makers to deal with all other member firms, including those making markets in the same security, in any size of bargain that they advertise through the Seaq electronic quotations system.

Some market makers are also unhappy about another rule which lays down that trades in top grade or "alpha" equities must be reported within five minutes, upon which price, size and time will be made public through Seaq.

The Markets Committee which drafted the rules was apparently split over Rule 360.3. A minority faction considered that if a market maker were to display a price quote on the Seaq system in a size greater than the minimum (likely to be 1,000 shares) it should only be required to deal with firms that were clearly handling agency business for outside clients, and not with firms which also made markets in the same stock.

The reasoning is that market makers may be inhibited from quoting in large size on the screens if they can be exploited by other market makers. Large size quotes, in several thousand shares, are considered to be desirable to improve the quality of the market.

But the counter argument is that drawing a distinction between agency brokers and market makers in this way – when the whole purpose of the new structure is to allow firms to act in both capacities – would make it impossible for firms to follow the "best execution" rule.

This is because firms with market-making arms which sought to execute a large agency transaction would not be able to get a quote in other than the minimum size of bargain from other market makers.

It is feared that if the amendment is made, dual capacity firms may be able to do agency business only in stocks in which they do not make a market. This could severely restrict the number of market makers.

The reporting deadline of 5 minutes for trades in equities is controversial for alpha stocks (of which there are expected to be 58 initially) where details will be published through Seaq immediately on reporting.

Some market makers are arguing for a longer buffer period so that a major position can be cleared from the books before the market becomes aware of the deal.

● THE stock exchange's new draft rules are all intended to come into effect on October 27, the date of Big Bang. The following is a selection from documents totalling 38 pages.

Conduct of business

Client agreement letter

A member firm shall before the execution of investment business with or for a client other than an execution-only client enter into a written agreement with that client or obtain a commitment from the client to enter into such agreement without undue delay.

A commentary adds that it is currently considered that a CAL need not be renewed annually, as suggested by the draft rules of the Securities and Investments Board, but only when there is a material change to the type of business being executed on behalf of the client.

However, it will remain incumbent on a member firm to keep its clients informed – perhaps verbally – of any non-material changes which could have a bearing on the relationship. There may need to be a variety of CALs to cover various types of relationship.

Excessive trading

A member firm shall not effect any transactions which are excessive in size or frequency in relation to the financial situation and investment objectives of the client.

Investment service

Investment service shall mean any service intended to improve the ability of the recipient to make investment decisions and/or evaluate investment performance.

It shall not include a service which could benefit the intermediary rather than assist him in performing his duty to his beneficiaries, or is designed to reduce his operating costs and is available on a commercial basis from suppliers not primarily connected with the securities industry.

A commentary adds that research, valuations and performance measurement would be permitted, but office equipment, newspapers or general software would not. Further consideration is to be given to the provision of screen services to clients.

Travel and entertainment

A member firm shall only arrange and pay for travel and entertainment for a client or counterparty when a member or employee of the member firm accompanies the client and provided that such arrangements are neither so frequent nor so extensive as to raise any question of propriety.

Booking of bargains

A member firm shall ensure that when accepting instructions from an intermediary (such as a fund manager) the firm has established whether the transaction is to be allocated to (a) the personal account of the intermediary or (b) managed portfolios. Contract notes shall be issued forthwith, and subsequent reallocation of the transaction is prohibited.

Domestic equity market

"Best execution"

A member firm shall take all reasonable steps to ensure that the price obtained by the client is as good as or better than the best price displayed in that security in a comparable size on Seaq (the Stock Exchange Automated Quotations screen system).

A firm may be required to justify its actions to the council.

Seaq quotes

A market maker which displays a two-way price in an alpha or beta security on Seaq in a size larger than the marketable quantity (normally 1,000 shares) must be prepared to deal at that price and in that size.

Transaction reporting

A transaction in a security carried out between 9am and 5pm shall be reported to the stock exchange within five minutes of its taking place. A transaction taking place after 5pm shall be reported by 9am the following business day.

A commentary adds that a transaction report in alpha securities will be published immediately on Seaq as to price, size and time. Transactions in all securities will be published next day in the Daily Official List, but for beta, gamma and delta securities permission may be given "not to mark" in exceptional circumstances.

Gilt-edged market

It is intended that market makers will display only a middle price service on Seaq for gilt-edged stocks.

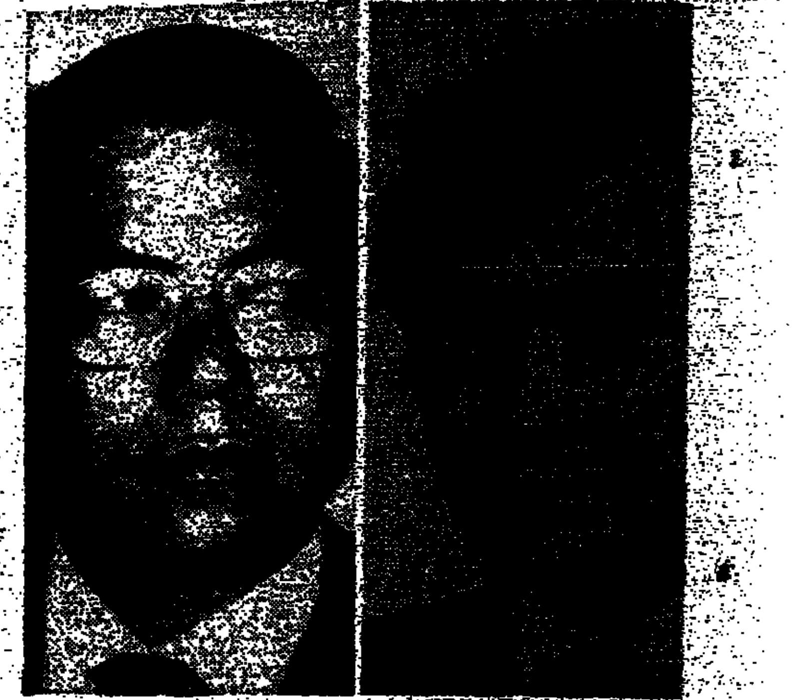
Reporting deadlines

A transaction of up to £100,000 nominal value carried out between 9am and 5pm shall be reported within 10 minutes of the transaction taking place. A transaction of more than £100,000 shall be reported within 30 minutes. A transaction after 5pm shall be reported by 9.30am the following business day.

MALAYSIAN INDUSTRY

Wong Sulong on a former high flyer's fight to survive

Promet faces a bleak future



The rift between Brian Chang (left) and Tan Sri Ibrahim Mohamed tarnished Promet's image

THE 34-storey, hexagonal Promet Towers is a proud landmark in Kuala Lumpur's hotel and commercial district. But behind the darkly-tinted glass, Promet's directors are struggling to work out a survival plan for the Malaysia-Singapore oil rig and construction group, whose bold ventures caught the imagination of local and foreign investors alike in the early 1980s.

Yet these ambitious ventures have brought the group into its current troubles. It has debts of 320m ringgit (US$123m) to two dozen banks, compared with shareholders' funds of 297m ringgit.

Promet is seeking a rescheduling of the loans, after reporting an after tax loss of 79m ringgit for 1985, compared with a net profit of 23m ringgit the previous year.

The gamble to ride with the oil boom has failed. The group's best bet now is in construction and engineering where it has a good track record. But these two sectors are also facing a slowdown.

Among its main lenders are Morgan Guaranty, Manufacturers Hanover Trust, Standard and Chartered and Hongkong and Shanghai Bank.

Promet has assured the banks they should not panic as the situation is manageable, but, understandably, one or two of them are said to be "rather jittery," particularly when only 10 per cent of the bank loans are secured against the group's assets.

Most of the loans are taken overseas in US and Singapore dollars, which have appreciated against the ringgit.

Mr Brian Chang, Promet's beleaguered 42-year-old managing director and main shareholder says the company is facing difficulties, but not a crisis. He hopes to reduce the debts by 60 to 70 per cent within 18 months.

This would be done mainly through the sale of assets. The problem is that the group's most valuable assets are property holdings in Malaysia. This is an unfavourable time to sell because the property market is depressed, and potential buyers are waiting on the sidelines, hoping Promet will be squeezed further to sell out cheaper.

Promet's main assets include 600 acres of freehold housing land outside Kuala Lumpur, a 49 per cent stake in a Kuala Lumpur twin-tower office block, called Bukit Naga, developed in partnership with the Malaysian Shell employees' pension fund; office complexes in east Malaysia; and 1,000 acres of leasehold land on Langkawi Island. It owns only four of the 34 floors of Promet Towers.

The decline of Promet has been as dramatic as its rise had been spectacular. Formerly the loss-making Bovis South-east Asia, it was taken over by Mr Chang and his former partner, Tan Sri Ibrahim Mohamed, in 1980. It was renamed Promet (for Progressive Methods). Mr Chang, a Singaporean engineer, was then operating a highly successful oil rig building business in the island state, which he injected into the new company.

By the end of 1983 Promet was the 14th largest company on the Kuala Lumpur Stock Exchange, with a market capitalisation exceeding 1bn ringgit. Today its shares are selling at 30 cents—less than a third of its par value—giving it a market capitalisation of 100m ringgit.

Bankers are at pains to stress that Promet's problems are quite different from those of the collapsed Pan-Electric Industries, the Singapore marine salvage, property and hotel concern. Several of Pan-Electric directors and major shareholders have been charged with fraud and share manipulation.

Promet's problems are, however, similar to those of United Motor Works, the heavy equipment and car distributor, which had to reschedule its 182m ringgit debts last February. Like UMW, Promet is involved in activities which are worst hit by the recession in south-east Asia, particularly in Malaysia and Singapore.

In retrospect, several major investment decisions were ill-advised. In 1983 Promet decided to go into oil exploration, taking up minority stakes in ventures in China, Malaysia and Indonesia. The 1985 accounts made a write-off provision of 46.6m ringgit for these ventures, and further provisions are likely for the current year.

The group also went heavily into property development, including taking over the ambitious project to develop Langkawi Island into a major tourist centre. By that time the property market was already turning soft.

Mr Chang defended the Langkawi project as being good in concept, and said it would have been implemented smoothly had it not been for cash-flow problems arising from Promet's other activities.

Now only a skeleton staff is being retained on Langkawi. Mr Chang said Promet was "in serious negotiations" with three potential buyers for the five hotels on the island. Work on the hotels stopped after piling was completed.

The Malaysian Government had spent 128m ringgit on building an airport and providing water supply and other infrastructure on Langkawi as its contribution.

The rift between Mr Chang and Tan Sri Ibrahim has tarnished Promet's image, and prevented the group from tackling its financial and business problems much earlier.

Tan Sri Ibrahim is well connected with the ruling United Malays National Organisation in Malaysia and his departure as Promet's executive chairman last February (he still owns about 10 per cent of Promet's equity) means that Mr Chang must now find another Malay partner of stature.

In Malaysia, business and politics are inextricably linked and it is essential to have an influential Malay partner to deal with the plethora of government agencies and push matters through.

In the eyes of many Malaysian officials, Promet is as a foreign-controlled company, and it might lose its previously favoured Bumiputra (Malay) status.

The future looks decidedly bleak for Promet. Its gamble to ride with the oil boom has failed. The group's best bet now is in construction and engineering, where it has a good track record. But these two sectors are also facing a slowdown.

FINANCIAL TIMES SURVEY

Monday May 19 1986

Adhesives and Sealants

Although sales of adhesives and sealants are not in the big league there is hardly a sector of industry that does not make use of these increasingly sophisticated products

Big demand for research

THE TRUE WAY to appreciate the significance of modern adhesives and sealants is to contemplate the value of the finished products in which their use is vital.

According to detailed studies undertaken by IAL, marketing and management consultants specialising in the chemical and allied process industries, total consumption of adhesives alone in Britain, France and West Germany in 1984 was 650,000 tons. Total annual sales of the adhesives and sealants produced by the 120 or so manufacturers in Britain in 1984 was £365m.

That is hardly in the big league but is certainly not insignificant. So when Dr Peter Bosworth, secretary of the industry's sole voice, the British Adhesives and Sealants Association, says that the products which depend upon sealants and adhesives are worth perhaps 100 times as much, he knows the claim is not statistically precise, for the total is incalculable, but it is undoubtedly of the right order.

"Every home and every car, every office block and every vehicle, depends on sealants," he points out. And that is only a sixth of the market: the total value of adhesives sales is five times more.

Sophistication has come to this industry. Glues have been reborn as adhesives and mastics have graduated as sealants. The technical problems of clients as varied as carton manufacturers and dentists, carpet manufacturers and water boards, together with the development of new raw materials, have transformed the industry's profile.

Adhesives and sealants are essentially the same—they have to provide a bond between two surfaces. The difference is not in kind but in degree—sealants have to fill bigger gaps and must, in addition, have more flexibility than is usually required for adhesives.

That is not always, however, as simple as it seems. The ordinary shoe, for example, is held together by adhesive at least in part. But while it prevents the upper from coming away from the sole, it must also withstand all the flexing and tension imposed upon it by the wearer.

SURVEY BY DAVID LOSHAK

The key element in this little appreciated but indispensable industry is, indeed, in expertise of application of its products.

It is, broadly speaking, a low capital industry. Although it employs advanced modern processes, such as polymerisation, these are hardly as complex as, for instance, those of the petrochemical industry, on which it relies for many of its raw materials.

There is such multiplicity of need for adhesives and sealants that the key to the industry's effective working is in suiting its many products to this variegated market.

There are some big multinationals in the field but they are well outnumbered by small concerns, often family businesses. There are 23 companies among BASA's 64 full members with a turnover of less than £2m a year, and some 60 or so concerns outside BASA together account for no more than 20 per cent of the market.

The chairman of one of them, Pafra, of Basildon, which last year won a Queen's Award for Export Achievement, is Mr Max Kochmann, who is this year's chairman of BASA. "The industry is highly competitive and very responsive to the changing needs of our customers," he says.

"Its extensive research and development activities continue to provide new and improved products in all fields, and thereby help to improve the products and processes of user industries."

This has led to a sea-change over the past 25 years in the quality as well as the range of products and the confidence of their users in them. Formulations are constantly modified, and specialist teams work with the makers of machines which apply them.

Price is often a problem. The industry does not find it easy to explain justifiable increases to customers who tend to take its products for granted.

Yet, it is vulnerable to currency changes, the effects of crop failures, with consequent loss of resins, and, perhaps above all, the economic ups and downs of its several markets.

When, for example, there is a recession in the construction industry or a downturn in one of the fashion-conscious markets, such as footwear, which the industry supplies, some smaller concerns can be hurt.

BASA has been making efforts to help users of both adhesives and ealants to appreciate the nature of the industry and what it can offer.

"Our role here is not to pass on product information," Dr Bosworth says, "but to deal with more general topics such as the need to design any articles which depend on adhesives and sealants in conjunction with the suppliers of those products.

"The supplying industry itself often probably fails to appreciate the know-how it has built up on end uses. With commodities, a user's decision depends on cost, quality and delivery. In the case of adhesives and sealants, the same considerations hold but cost means the cost to achieve a function.

"It will vary with the cost per unit weight of product but often much more dramatically with the design of the bond, the calibre of the adhesive and the way the product is used — whether it is applied, or 'cured' or whatever.

"In many cases, work with the supplier will offer major savings. These will come from the expertise the supplier has built up, even though the expertise itself is reflected, of course, in the price per unit weight."

Another important role the industry fulfils, through its trade association, is to deal with consumer protection. BASA has three working parties, dealing with labelling of hazardous products, safety and retail products.

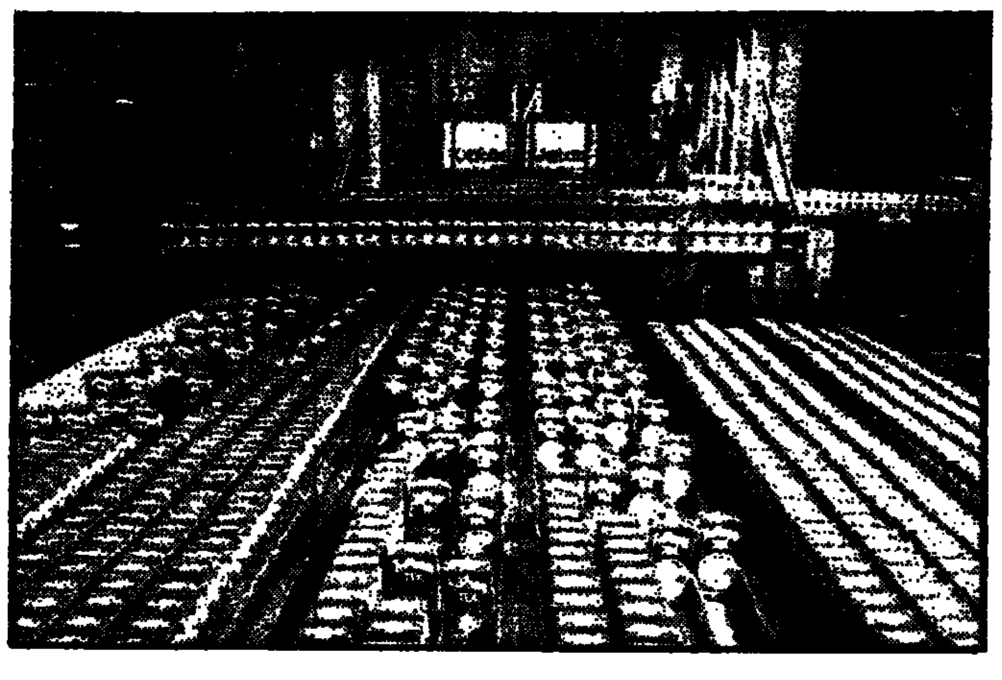
It is inevitably involved, also with the proposed Health and Safety Commission COSHH regulations on the control of substances which threaten health, and regulations coming into force next year concerning the manufacture, supply, conveyance and use of dangerous substances.

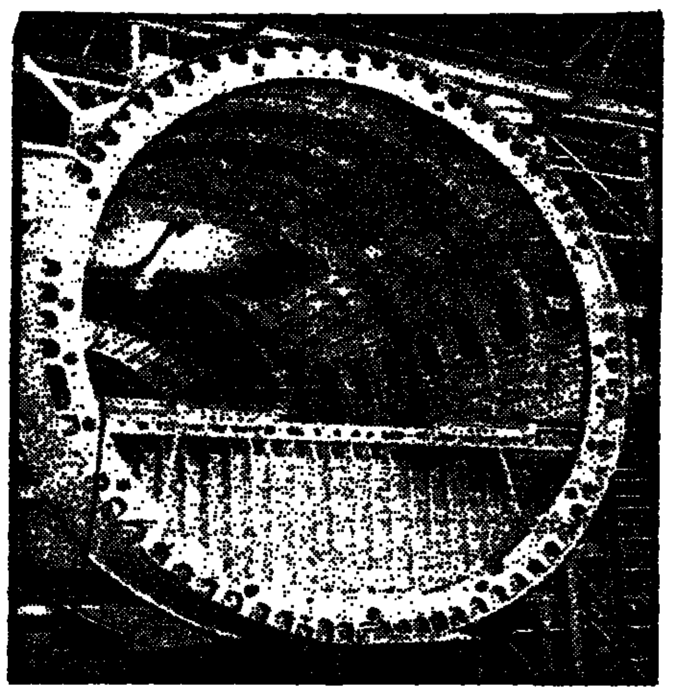
It has an interest, further, in such legislation as the recent Intoxicating Substances (Supply) Act — passed to reduce solvent abuse (few cases of which, in fact, arise from sniffing adhesives).

These are functions of growing importance if only because of the EEC and the impact of European Commission directives on various aspects of the industry's work, such as quality standards, standardisation of pack sizes and other specifications, and product liability. BASA works closely with the European Adhesives Association and will host its 1987 Assembly, in Edinburgh.

Although several of the larger manufacturers have strong international links, exports are not of major importance. Many of the products, being waterborne, are uneconomic to ship, while others, which contain inflammable solvents, are awkward to send abroad.

But in some specialist areas, as with Pafra's gluing equipment, which has been sold in 30 countries there is a keen demand for British made products, while National Adhesives and Resins, a subsidiary of the US company National Starch, exports to 18 countries and sees China as a major potential growth area.





The centre fuselage of British Aerospace's 146 showing bonded stringers. From helicopters to the European Airbus adhesives and sealants play an important role in the construction of aircraft. Left: packaging is another important sector

One innovation with export potential is the development of a tissue-tolerant superglue for use in human surgery. Now being studied at the Medical Unit of North Staffordshire Polytechnic, this would offer to surgeons the same advantages of smoother joins and better load spreading, in place of stitching, that industrial adhesives offer in place of welds and rivets.

It is fair to claim that the adhesives and sealants industry, unlike some other long-established British industries, has adapted well to change. Moreover, it stimulates change, with new ideas and new products — Dr Bosworth reckons that the typical product of today is superseded within five years.

Mr George Hutson, joint managing director of National Adhesives and a previous BASA chairman, says the industry deserves recognition for the way it has coped with a succession of new materials, end-product performance needs and developments in production and construction.

In the past, he believes, it was "somewhat casual" about its standing as a provider of a vital service. Users had thus regarded its products as commodities rather than specialities.

The industry now needed to project more self-confidence and style, as well as to seek, through its pricing policies, the financial base which would enable it to respond to its responsible role.

"In the aerospace, automotive, electronic and building industries, there are many examples of new and highly demanding performance requirements that in-depth research by the industry has made possible," Mr Hutson added.

"While these are exciting, many other examples arise day by day whereby the industry is gradually helping a wide range of British industries to improve standards, cope with new products and processes and become more efficient.

"Such activities are more mundane but the adhesives and sealants industry functions as 'consultant' to industry at large and to the individual consumer.

"It is a vital component in our industrial success."

Adhesives and Sealants 2

On this and the next two pages a look at some of the sectors supplied

Structural adhesive innovations

Civil Engineering

STRUCTURAL adhesives offer the best growth prospects within the adhesives industry. Their development gives the engineer a viable alternative to mechanical joins in many load-bearing and other applications.

The advantages of adhesive bonding, as against soldering, welding or riveting, are manifold. There is less risk of corrosion. They make possible continuous fixing with forces spread evenly along the glue line. Application is easier and appearance better.

But while engineers have a wider choice than ever of materials of varying capabilities, adhesive suppliers have found it hard to overcome their allegiance to tried and tested methods.

A conference, to examine such aspects of structural adhesives as their use in the motor industry and what requirements they will need to meet in future, is being convened by IAL Consultants, of London, later this month. IAL's own researches suggest that much of the growth in use will occur in bonding plastic and lightweight metal components.

The great potential for structural adhesives in transport has yet to be realised, IAL say. The all-bonded car, lighter in weight and therefore more fuel-efficient as well as corrosion-resistant, has yet to roll off the production line.

Nevertheless, a prototype has been developed, which makes greater use of aluminium and plastics. The car consists of a central steel or aluminium frame, a form of chassis, comprising the main load-bearing members of the monocoque design. Aluminium or plastic body panels are fastened to this by adhesives which overcome the problems of mechanical fixings, such as their concentration of stresses at fixed points.

Adhesives can also be used in the frame itself, where the enhanced stiffness of bonded structures may enable designers to use thinner metal, lowering production costs. A Loctite adhesive has recently been used for the first time, in the new Austin Rover 6R4 Rally Metro, to fasten a magnesium-aluminium roof to a steel body.

Structural ahesives can also reduce the time and cost of repairs, says Dick Newberry of the Adhesives Technology Department at BL. "Current cutting and welding techniques make de-trimming necessary. But removing a damaged panel and bonding in a replacement is a cold technique. It means that trim and fuel system components can be left in situ."

Adhesives and sealants of many kinds are already used widely, of course, in the automotive industry, both by the main manufacturers and the makers of components. Epoxy, rubber or PVC based adhesives are applied as fluid paste to parts of the car body before it passes into ovens for heat hardening of paint, where they too solidify.

Spotweld sealants are also used to prevent rust at vulnerable points. A recent development is the use of moisture-curing polyurethane adhesive sealants to bond in and seal windscreens.

As so often in the adhesives industry, it is the smaller companies that have major innovations to their credit. One in this field is the Staffordshire firm, Apollo Chemicals.

Its Astrolok adhesive and bonding system for "sandwich panel" construction has helped to modernise the production of caravans, truck bodies, mobile homes and cold stores.

Some adhesives will even bond through thin oil films. This is useful in many processes where bonding is needed in the course of production before it is practicable to remove contaminants.

Another major user of adhesives and sealants is the domestic appliance industry—in appliances as varied as freezers and ovens, dishwashers and vacuum cleaners. Tough and durable one-part sealants can plug leaks in gas pipes below ground, often obviating costly and inconvenient road excavation work.

The brazing of machine tools may soon be obsolete, thanks to recent work with high strength heat-resistant bonding. A new toughened adhesive outperformed welding in tests. Special new adhesives have enabled at least one manufacturer of air conditioning units to use new materials and so cut production costs by 40 per cent.

Yet another field in which adhesives play a valuable role is the construction of segmental bridges. Epoxy resins are used to join surfaces of precast concrete segments in such a way that compression, shear and tensile stresses are transmitted from segment to segment, to lubricate the surfaces of joints to help segments to be positioned properly during erection, and to give a moisture seal across the joints.

In hardly any of these applications [illegible] adhesive or sealant [illegible] problems. Often, an adhesive has to be "tailor-made" [illegible] a specific situation or problem.

No wonder, then, that one firm alone, Henkel, produces more than 600 [illegible] adhesives. And there are several manufacturers in the same league.

On the Thames Barrier two-part polysulphides seal the superstructures, flood walls, deck areas and 'domes,' while flexible epoxy sealants are used below tidal levels where abrasion is a possible problem.

ADHESIVES USE
By type, 1985 (estimated)

	Tonnes '000
Natural glues and adhesives	59.0
Bituminous	3.5
Solvent-based rubber adhesives	21.5
Rubber latex	16.0
Synthetic resin (polymer) emulsions	69.0
Other water-based adhesives	12.0
Solventless adhesives (including hot melts)	14.0
Structural adhesives	5.0
Other adhesives	7.0
Total	207.0

No significant change in total consumption is forecast up to 1989, but there will be important changes in the types of adhesives used. There is a trend to replace solvent-based adhesives with water-based or solventless types and there will be consequent changes in the requirements for raw materials. Prospects are particularly bright for polymer emulsions and hot melts.

BY END-USE
1984 (estimated)

	Tonnes '000
Packaging and paper	82.5
Building & construction	70.5
Textiles, non-wovens, footwear	5.6
Vehicles	7.0
Other uses, including retail sales	41.6
Total	207.0

Source: IAL Consultants.

Adhesives and Sealants 3

Big appetite for adhesives

Stationery

ALMOST EVERY stationery product—and there are thousands—requires an adhesive.

In printing and bookbinding, too, adhesives are essential; and the roles they have to fulfil are surprisingly varied. Hardbacks, paperbacks, periodicals, directories, catalogues and educational books all have differing requirements.

A number of companies in this field produce hundreds of adhesives for envelopes of many kinds, folders, files, boxes, binders, writing pads and the like, as well as for books as varied as receipt and cash books at one end of the spectrum and quality hardbacks at the other.

There are also such useful products as the growingly popular yellow self-adhesive papers which will stick almost anywhere but can be removed and restuck without leaving a mark. But there are also self-adhesive labels, of course, which are made so that they cannot be peeled off.

A noteworthy adhesive in the stationery field is the widely-used stick of "non-sticky stuff" which is one of the most convenient and easy ways to bond paper, card and the like, and is absent from hardly any office in the country.

The adhesives used in stationery are mainly hot melts, emulsions, vegetable glues and pressure-sensitive adhesives, the last allowing for any degree of tack or peelability, as required.

To produce envelopes by the million from reel-fed, high-speed machines, remoistenable hot melts are now the favoured adhesive. Hot melts are also used in seams and bonding processes, giving fast setting at economical cost. Other examples of their use include direct mail returns, promotional literature and continuous-run stationery.

Clear and colourless emulsions, too, are fast setting and are ideal for greeting card assembly, for example. Remoistenable emulsions allow lightweight paper to lie flat.

Dextrin vegetable glues are, after many years, still widely used in envelope manufacture. There are all kinds of grades for all kinds of circumstances and requirements, such as fast-drying, tropical climates, extra wet tack, and high gloss.

There are several manufacturers, some established for generations, who have specialised in bookbinding adhesives, including new ones which allow swifter production, and synthetic resin adhesives which can be used cold to give flexible bonds with clean results.

Books present many challenges to the adhesive manufacturer. With mass-produced paperbacks, for instance, the paper is often heavily filled and non-absorbent, and there may be colour printing right into the gutter, with ink solvents capable of affecting the adhesive.

In addition, as there are no board covers and spine, the paperback's durability comes from its adhesive; yet this must not be so stiff that it will not open easily, and the book may be exposed to extremes of temperature. The modern hot melts are the best answer to these problems.

School textbooks produce different problems. They get exceptionally hard use and must be able to withstand it term after term. Many carry colour illustrations on coated paper. They should lie flat and they must be produced at lowest possible cost.

The adhesives industry has proved adept at meeting the constantly developing requirements of a society which, despite the telecommunications explosion, has an unappeasable appetite for stationery and the printed word.

At canning factories high speed precision and versatile adhesion characteristics are important

Exports of formulated adhesives

(1980-84)

	Tonnes* 1980	‡1981	1982	1983	1984
Casein glues	208	13	215	212	224
Gelatine†	2,734	568	1,910	1,933	1,674
Starch or dextrin glues	594	103	704	675	644
Fish and animal glues	n/a	n/a	1,535	1,653	1,388
Prepared vegetable glues	970	273	530	907	1,308
Other prepared glues	12,180	2,478	10,807	10,727	10,688
Glues for retail sale: (packages less thn 1 kg)					
Cellulose-based glues	1,191	254	1,775	1,594	1,175
Other products suitable for use as glues	1,333	335	1,254	1,289	1,362
Total			19,050	18,989	18,463

* The statistics by weight are incomplete for 1980-81 so no totals are given.
† Excludes photographic gelatine, by definition includes edible gelatine.
‡ Last quarter only.

	£'000s (fob) 1980	†1981	1982	1983	1984
Casein glues	148	14	250	179	259
Gelatine*	4,824	998	3,650	3,789	4,236
Starch or dextrin glues	253	79	452	462	584
Fish and animal glues	1,523	329	1,927	1,909	1,793
Prepared vegetable glues	1,432	499	1,946	2,316	3,639
Other prepared glues	12,381	3,030	14,055	15,691	15,877
Glues for retail sale: (packages less than 1 kg)					
Cellulose-based glues	1,054	223	1,437	1,311	1,101
Other products suitable for use as glues	2,900	814	2,472	2,553	2,585
Total	24,816	5,986	26,189	29,210	30,074

* Excludes photographic gelatine, by definition includes edible gelatine.
† Last quarter only.
Source: Overseas Trade Statistics.

Imports of formulated adhesives

(1980-84)

	Tonnes* 1980	‡1981	1982	1983	1984
Casein glues	450	128	385	366	509
Gelatine†	5,172	1,672	6,486	6,134	6,705
Starch or dextrin glues	1,177	770	2,419	2,461	3,118
Fish and animal glues	n/a	n/a	5,211	4,386	4,380
Prepared vegetable glues	270	158	653	243	447
Other prepared glues	2,468	669	3,315	3,890	4,565
Glues for retail sale: (packages less thn 1 kg)					
Cellulose-based glues	90	45	96	48	51
Other products suitable for use as glues	666	185	704	678	770
Total			19,269	18,206	20,545

* The statistics by weight are incomplete for 1980-81 so no totals are given.
† Excludes photographic gelatine, by definition includes edible gelatine.
‡ Last quarter only.

	£'000s (cif) 1980	†1981	1982	1983	1984
Casein glues	276	74	275	274	540
Gelatine*	7,981	2,856	11,766	11,499	13,607
Starch or dextrin glues	542	332	1,348	1,456	1,704
Fish and animal glues	3,420	773	3.312	2,822	3,063
Prepared vegetable glues	272	89	414	509	863
Other prepared glues	4,316	1,202	6,035	8,072	9,320
Glues for retail sale: (packages less thn 1 kg)					
Cellulose-based glues	414	171	391	94	114
Other products suitable for use as glues	4,262	1,344	5,060	3,930	4,054
Total	21,483	6,841	28,601	28,656	33,265

* Excludes photographic gelatine, by definition includes edible gelatine.
† Last quarter only.
Source: Overseas Trade Statistics.

Do-It-Yourself

THE buoyant do-it-yourself market—DIY to afficionados—continues to boom, with sales of some £3,000m a year in all. Within this market, of course, adhesives, fillers and sealants are fundamental.

Home owners now comprise *the majority of householders*, and DIY activity has increased markedly, although the number of hardware shops supplying the market has fallen from about 23,000 during the 1960s to about half that number today, due to the rise of DIY superstores.

With the continuing popular interest in bathroom and kitchen decor showing no signs *of slackening*, and as householders, particularly the young, show increasing confidence and ability in tackling jobs for which they would have formerly called in a professional, the market's continued growth seems assured.

There is now a bewildering array of adhesives, fillers and sealants for the do-it-yourselfer to choose from.

Evode, a major UK manufacturer, has established its Evostick as a household name. The range has impact and time-bond adhesives, waterproof wood adhesives, adhesives for ceramics, ceiling tiles and floor coverings, groutings, flashings and glazing tapes, bath, roof and car sealants, and much more.

Among other leading suppliers in the retail DIY market are Hansil, Expandite, Bostik and Hermetite, although there are, of course, many more producing both adhesives and sealants in a great variety of forms and for almost every domestic need.

One of the most notable products of recent years has been the class of cyanoacrylate adhesives—the "superglues"—which have exceptionally rapid bonding times, measured in seconds rather than minutes, and whose ability to bond impermeable surfaces like metal and plastic as well as wood and paper have made them all but indispensable to the home handyman—though he has to be careful, as they are, notoriously, no less good at bonding human skin.

The adhesives industry has proved itself to be particularly inventive in this area and responsive to consumer demand. There are even adhesives which can be used with inflatable craft like dinghies, as well as adhesives which spread like butter and so are particularly easy for the non-expert to use. It is a market in which there are always good new ideas

Supermarkets are spur to development

Packaging

FEW INDUSTRIES have created more challenges and opportunities for the innovative and ingenious use of adhesives when packaging and labelling. Supermarket trading, with the switch from personal to self-service, which has been chief spur to change and development.

This revolutionised packaging, as not only the shelves of the supermarkets but their frozen-food compartments make abundantly plain. The brown-paper wrapping and anonymous bags of the past have gone, replaced by individually packed and sealed items displaying the maker's name, often in distinctive ways which would oe impossible without sophisticated adhesive techniques and the complex machinery that enables them to be applied on a mass scale at great speed.

Without modern adhesives, certain types of packaging could not exist at all—frozen food in greaseproof boxes, for example, or many kinds of PET plastic bottle which, despite appearances, consists of two sections bonded near the base.

The apparent simplicity of a simple pack belies the comlexity of its underlying technology. The humble bag of nuts, for example, is a three-layer laminate.

Or, to take another example, a tub of yoghurt can require an adhesive to be white, for aesthetic reasons. It must also be capable of resisting the migration of fats, and able to create an impervious seal to atmospheric conditions. And it must fulfil statutory regulations *governing direct contact* with food, and be capable of working effectively on the packaging machines.

No less remarkably, the cigarette industry depends on modern adhesives for speed and reliability of production. Adhesives are used with machines that attach 8,000 filter tips a minute; and up to 400 hinge-lid packets a minute are formed and sealed by adhesives.

Adhesives are vital, too, in carton manufacture, case and carton forming and sealing, tray-erecting, tube-making and tapes and labels. Pack design, the type of paper and board employed, the inks and varnishes and barrier coating used, as well as the variety of packaging machines that are available, all influence the type of adhesive used, and stimulate the development of new and better adhesives.

Hot melts are among the most commonly used kinds of adhesives in packaging. They have transformed packaging during the last two decades by allowing faster production and the use of many more types of packaging material.

Also commonly used are dispersions—popularly known as "white glues," which are water-based, like emulsiou paint—starch adhesives, used in bottle labelling and the manufacture of bags and sacks, and protein glues from animals and casein, which have excellent laminating qualities.

The cost of the adhesives is a relatively small item in the total costs of a package—typically, as with a peanut bag, about 7 per cent. But if the adhesive fails, so does the entire package, and a lot of sales appeal. The adhesive in packaging is crucial.

Aminoplasts make their mark

Chipboard

PROBABLY NO material, despite the wide range of modern plastics is as versatile as wood. But the trouble is that it is always relatively scarce, if only because it takes so long to produce.

One way to maximise the potential of wood is to employ chipboard, which uses almost every part of the tree to produce boards with uniform and consistent properties that can go into almost every type of finished article for both industry and the domestic consumer. Last year, more than 2m cubic metres of chipboard were used in Britain.

The role of adhesives in its production is vital. Synthetic resins are used to bond wood particles into a homogeneous mass. As much as 10 per cent of a board can be resin, so the properties of the adhesive are crucial and the manufacturers have done a great deal to get the best possible performance and appearance.

The most widely used resins are aminoplasts, chemically akin to the resin used in white electrical plugs and light sockets. Normally, it is used in two mixtures — one for the core of the board, where the coarser wood particles are bonded with a fast curing resin; the other for the board's two faces, formulated to give a smooth surface and to be moisture-resistant and durable.

A 12 inch-thick mat of particles and resin is built up on a moving belt and fed into a heated press, where the board is formed and cured. After being pressed, at temperatures of up to 200C, the boards are cooled, then cut to size and sanded.

As the technology has developed, grades of chipboard for special applications have been produced. Some is veneered with real wood, or there is board with decorative laminates, or with PVC and paper foils.

Particularly durable boards, which can withstand high humidity, are made for kitchens and bathrooms, and these need special resins. Other forms of board have been produced with higher strengths, for structural applications, and with superior mechanical properties, achieved by orienting the wood particles. Again, this is totally dependent on the right adhesive.

One of the latest developments is medium-density fibreboard, in which the wood is broken down into individual fibres before being bonded. This board is like a fine-grained wood. It can be machined much more than chipboard, which allows moulding and other more detailed working to be carried out.

Chipboard and related products have been in use in Britain now for more than 30 years, and have an established place in a variety of uses—a variety that is constantly developing. This has been possible only because of the close co-operation between the board manufacturers and the suppliers of resin.

Adhesives play a major part in the manufacture of shoes

Footwear

MOST footwear today is made either by sticking a preformed or sheet sole to the upper, or by moulding a thermoplastic or thermosetting material on to the upper. More than 90m shoes are bonded by these two methods in Britain each year.

Because so many materials are used in modern footwear—various rubbers and plastics as well as leather—the differing adhesives used have to be highly versatile. They must have good "tack," high initial strength and a capacity to withstand the stress of long wear. Heat resistance is also important.

The Shoe and Allied Trades Research Association, which works closely with the British Adhesives and Sealants Association, employs stringent testing and evaluation methods at its Footwear Technology Centre.

Finished shoes are assessed using the Satra sole adhesion tester to determine the force needed to separate toe or heel.

The European Adhesives Association has also developed test methods and requirements for footwear adhesives and bonding of shoe materials.

Unhappy youthful experiments

THOSE WHO toil in what to many is seen as the somewhat humdrum business of adhesives and sealants are to a man affronted at being linked with the bizarre and, for all the publicity, comparatively rare practice of solvent abuse, popularly known as glue sniffing.

Even solvent abuse is not an accurate description of the habit, for some of the substances involved are not solvents. To be precise, it is volatile substance abuse that is the problem.

Glue sniffing as such is estimated to account for fewer than 25 of the 80 or so deaths a year in Britain, almost always accidental, almost all among teenage boys, attributed to the habit of inhaling volatile and psychoactive substances to obtain a dreamlike "high." About 1,000 youngsters a year are thought to experiment with these materials.

Dozens of products besides solvent-based adhesives can and are used. They include such everyday contents of kitchen cupboards, bathroom cabinets, dressing tables and garages as cleaning fluids, nail varnish remover, aerosol propellants, hair sprays, paint, petrol, fire extinguishers and even the fumes from burning ping pong balls. Adhesives have unjustly attracted publicity because, in essence, glue-sniffing is a term that suits headline writers.

Despite this, the adhesives and sealants industry has, more than any, taken initiative to tackle the problem. Most notably, it has founded the national charity Re-Solv, whose executive director, Mr Barrie Liss, has been seconded to it by his company. Re-Solv, totally independent from the industry, has 26 local authorities among its associate members as well as associations representing manufacturers and retailers.

A grant from the Department of Health and Social Security has enabled it to produce an up-to-date advisory kit, with guidelines and warning stickers, for free circulation to 43,000 retailers.

There is also a 20-minute video for shop assistants covering the history of volatile substance abuse (which goes back to ancient Greece), medical aspects and the best ways to deal with potential abusers across the shop counter. There is, too, a video for schools and a book for social workers.

The British Adhesives and Sealants Association believes that education, as broad as possible, is the best approach. As Dr Peter Bosworth, its secretary, points out, this is a social problem that is not at bottom amenable to a technical solution.

BASA has helped defray the costs of publishing a book, of making the Health Department film Illusions, for professional workers, and of seminars on all aspects of the issue.

Mr Liss believes that as most solvent-based products can be abused, the dissemination of correct information should be dealt with collectively by all manufacturers of such products. For this reason, ReSolv has a variety of industrial and trade associations among its members.

In addition to its educational work, the charity co-ordinates action across the spectrum of these industries, seeks to make media coverage more responsible and informed, and maintains contacts with concerned MPs.

The Intoxicating Substances (Supply) Act, which came into law last year, was drawn up in close consultation with the adhesives industry and other interested parties. It makes a person who supplies or offers to supply a substance which they know or believe will be inhaled by a young person liable to six months' imprisonmant or a fine of up to £2,000.

This superseded an earlier Bill which would have required manufacturers to add an agent to make adhesives repellent. But BASA was able to persuade MPs and ministers concerned with volatile substance abuse that aversive additives were impracticable.

The products would be rendered unpleasant or even unacceptable to the proper user. Moreover, most vile-smelling additives are themselves toxic.

In any case, such additives tend either to reduce the effectiveness of adhesives or lose their aversive qualities relatively soon. In the US, one additive is suspected of being carciogenic.

In considering whether there is a technical solution to the problem, it can obviously be asked if consumers need solvent-based adhesives at all. For some applications, certainly aqueous products are more suitable — in wood glueing, for instance. But to glue plastics or rubber, only solvent-borne adhesives will do.

In other cases, where the industry has provided consumers with a choice, they have tended not to prefer the aqueous products because they take longer to provide a bond. They neither look as good nor perform as well in other respects.

It thus remains that solvent-borne adhesives account for a quarter of the total tonnage of adhesives sold. Since they need more precautions in use, it is evident that they do some jobs better.

Work is going on to develop adhesives which are solvent-free. This has in any case been undertaken because it would reduce the need in industrial processes for flameproof motors and help to eliminate static. But it remains a stubborn physical fact that water has a high latent heat and is also unable to dissolve plastics. No major switch to solvent-less substitutes is therefore likely.

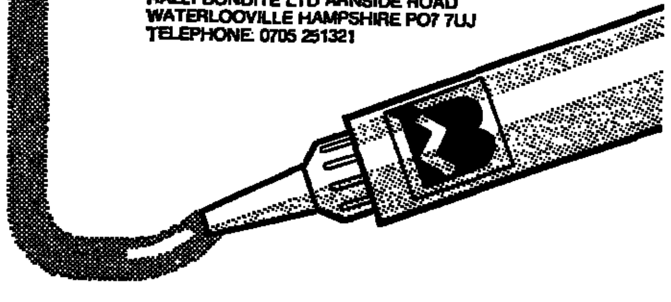
Ultimately, it is a matter of education, social attitudes and law enforcement. The videos, books, conferences, leaflets and posters can do a great deal.

As for social attitudes, controlling behaviour, especially of teenagers, is a notoriously tricky problem, especially in a free society. Harsh repressive measures would almost certainly prove counter-productive. Publicity has probably helped to spread the fashion but could equally be used to combat it.

Likewise, although laws against harmful habits can often create more problems than they are intended to solve, the recent legislation should perform a useful role in discouraging irresponsible shopkeepers from selling potenitally dangerous inhalants to young people. The need for the legislation, as well as an illustration of the deterrent power that the law can deploy, has been demonstrated in Scotland, where, under Common Law, two Glasgow shopkeepers were sentenced to three years' imprisonment for selling solvents to children, knowing they would be abused. Under English Common Law, they could not have been prosecuted.

All in all, says Dr Colin Brewer, director of the Community Alcoholism Treatment Service at the Westminster and All Saints' Hospitals, writing in New Scientist, volatile substance abuse is best seen in historical perspective, individual tragedies notwithstanding.

"As with ether and laughing gas (freely sniffed in Victorian times), the habit will probably diminish of its own accord and the vast majority of habitual glue sniffers will have transferred their affections to beer long before they are legally entitled to do so."



New needs stimulate improved products

Technology

FOR MILLENIA, starting with the glues derived from bones and hides in ancient Egypt, to the chemically sophisticated bondings which has so successfully kept the heat resistant tiles of US space shuttles in place, adhesives have continuously played a part as essential as it has been unsung and underrated in man's technological advance.

Few people would even think of putting adhesives along with the wheel, paper, explosives or agriculture as inventions which have been fundamental to progress. Yet their largely invisible contribution has been crucial from the earliest times.

Never more so than today, when their uses are *legion*. Without them, indeed, and sealants too, hardly anything would be as it is in fields as varied as electronics, publishing, architecture, medicine, packaging, construction and aerospace. They are essential in Concorde and the Thames Barrier and motorway, ingeniously applied in shoes and cigarettes and toilet rolls.

Quite when the possibilities of using adhesives were first discovered is unknown. But a fragment of a coffin found in an Egyptian tomb and dated to before 2500 BC has surface inlay veneers stuck with animal glue. A cake of glue has been found in a tomb from the second millenium BC. A wall decoration of later date shows a carpenter with a gluepot beside him.

The Egyptians were pioneers, too, with sealants. Bituminous materials have been found in the tombs of the Pharaohs.

As the Egyptians, so the Chinese, as in so much else. The ancient Chinese adhesive mix of cheese and lime was similar in essence to the 20th century use of casein, the protein in milk. Casein was used during the Renaissance for picture frames.

Factory production of glue *from skins and bones* came from Holland to Britain in the 18th century and remained the main adhesive in woodwork, abrasive products and bookbinding until the 1940s. Indeed, animal glue is still used—in directories that are to be recycled, for example, and as the binder in match heads.

It was during the industrial revolution, from the later 18th century, that the use of starch as an adhesive grew apace. First used as a textile size, it led to the *development of the dextrine* industry, with its tackier and faster-setting adhesives. These were the mainstay of the packaging industry until the veritable revolution in that sector of the last two or three decades.

At about the same time, natural rubber in solution in organic solvents produced adhesives for textiles, clothing, footwear and rubber and remained in such use until recent times. Pressure-sensitive tapes using rubber solutions date from as far back as 1845, and new adhesives came during the following decades for textiles, paper and board, the "dry tack" of the natural rubber film leading to self-seal adhesives of a kind widely familiar still.

The use of rubber latex for adhesives is especially noteworthy, for it was the first time a dispersion was used rather than a solution. Adhesives of this kind are widely used today. Also, vulcanising ingredients in rubber adhesives marked the first use of chemical reaction, a harbinger of the immense developments to come.

The mid-19th-century also saw the introduction of linseed oil putties, the first significant advance in the manufacture of *sealants*.

In the years up to World War II, more natural adhesives came into use — the water resistant wood adhesives, deriving from blood albumen and from casein that were used by Allcock and Brown in other early aircraft. A mixed blood and egg albumen adhesive was long used to stick the cork to the metal of bottle crowns.

It is only relatively recently that these have all but totally disappeared. But as early as the 1930s, synthetic polymers, albeit few in number, were becoming known — the phenol-formaldehyde resins, and urea and melamine formaldehyde glues, for instance.

However, it was only some 30 years ago that synthetic polymers, cheaper now through bulk manufacture and the rising cost of natural raw materials, came into their own. That began a trend which accelerated rapidly with the rise of the petrochemical industry and the mushroom growth of modern synthetic adhesives and sealants.

These have been developed in line, of course, with the increasing use of synthetic materials generally, to meet the considerable and varied demands of modern packaging, and as a stronger and corrosion-free replacement of rivets, screws, bolts and other mechanical fastenings.

"You can no longer think of it as the gunk and glue business," says Mr Harry Werrell, managing director of Swift Adhesives and a leading figure in the British Adhesives and Sealants Association. "In whatever direction you turn, when two surfaces come together there is an adhesive for them."

That means the technology has developed, for example, a wide range of products to handle difficult substrates — those in which the basic chemical or physical structure of the surface does not respond to the banding mechanism of traditional adhesives.

Thus, it is now possible to stick materials to waxy, greased or varnished surfaces, to aluminium foil, plastics, glass and to many other surfaces with which non-mechanical bonding was not possible until a few years ago.

The development of hot-melt adhesives for bonding has advansed from such initial applications as packaging and labelling to coating, laminating and product assembly—uses dictated by the need for speedier output on production lines.

Hot melts are totally solid material composed of polymeric resins, waxes and stabilisers which, in various combinations, offer a large range of physical properties for different applications. They differ radically from liquid adhesives in that they form bonds by cooling rather than evaporation or absorption, giving them the advantage of very rapid setting in high speed production and allowing the most precise and accurate control, saving on cost.

Because there is no volatile vehicle that has to be eliminated, they can bond many impervious substances. And their shelf life is lengthy.

Poly-vinyl acetate adhesives have been developed, with acrylics and co-polymers in their formulation, for high-speed, water-resistant packaging as well as in bookbinding, bottle labelling and envelope manufacture. Continuing research in synthetic polymer chemistry has yielded new PVA emulsions for wood applications and, through crosslinking technology, adhesives that can withstand extremes of exposure.

Dextrine and starch adhesives are still used widely, as are animal glues, in bookbinding, packaging, labelling and the like. Solvent-based adhesives are increasingly non-flammable, for product assembly applications in insulation, foam converting, trim attachments, sealing batteries, decorative laminates, vibration damping panels and hundreds of other uses.

Modern adhesives often have to withstand stretching and bending. New solvent and water-borne systems are fundamental to the manufacture of such varied products as snack food packets, fire-retardant blankets, sailcloth, tarpaulins and other flexible web applications.

The growing use of nonwoven materials for disposable medical and domestic products has led to new and highly engineered adhesives applications. Often, the adhesives must be sterile and non-toxic.

In high technology, with its new industries, the challenge of innovation has led to the development of cyanoacrylates, anaerobic sealants and acrylic adhesives. The major suppliers to the adhesives industry today invest heavily in research and development.

The science of adhesion involves several scientific disciplines—polymer physics, polymer chemistry, surface chemistry, colloid chemistry, rheology.

Polymer physics and chemistry are deployed in determining the quality of the final bond made by adhesives and sealants—their capacity to withstand extremes of temperature and humidity, their durability, their resistance to load and shock.

Surface and colloid chemistry are employed to achieve adhesion to the surfaces to be bonded and sealed. Because the forces of adhesion are at molecular level, they can only be brought into effect by very close contact and it is an adhesive's "wetting" ability, its ability to enable intimate contact with a surface, that is crucial.

Rheology, the science of flow of liquids, is used to assure that flow qualities are appropriate to application method and machinery requirements. An adhesive or sealant must usually assist the user, in terms of timing and speed of setting, to make a bond as well as provide the final join.

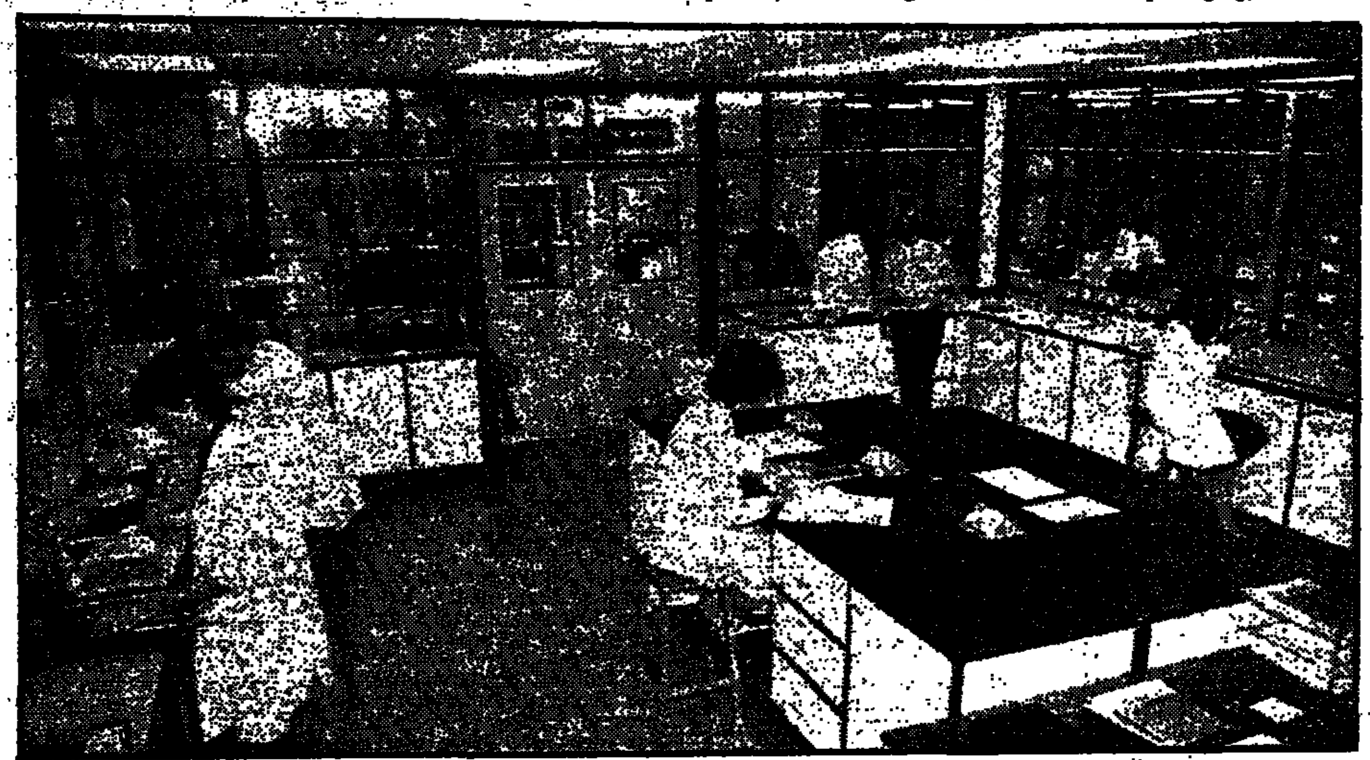
The development of sealants has, to, advanced remarkably in recent years, notably in the building industry. In the war years, they were used in tanks and vehicles to enable them to pass through rivers and streams, as well as in aircraft and ships. Later, they came into more general waterproofing use but the modified putties that were not displaced until the 1950s were unsatisfactory.

Oil-based mastic was an improvement but also had limitations. It was succeeded by polysulphide sealants, butyl rubber-based sealants and the acrylic sealants, and later by silicone sealtns, which proved of particular value in glazing and of ever-growing use in the construction industry. These have excellent durability and can accommodate movement.

An index of the utility of modern sealants is provided by the New Scotland Yard building in central London. Whatever there is to say against its architectural aesthetics, it is worth noting that it caintains 17 miles on polysulphide sealed joints.

In all these and many other ways, adhesives and sealants today contribute significantly to industry, commerce and the economy generally. Thanks to the remarkable developments in their technology, they will continue to play a key role in the regeneration of British manufacturing.

Technicians use computers in the formulations laboratory at Datec Adhesives, the Dukinfield (Cheshire) based company, to make sure adhesives supplied match customer's needs



New laboratory facilities at Tivoli Kay Adhesives, Bury

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Policy choice in Yugoslavia

NEW GOVERNMENTS in Yugoslavia do not usually spell markedly new policies. They are all drawn from the one (Communist) party. Indeed the only reason they change every four years is to let each of the country's eight republics and provinces have a turn at putting their people at the federal helm. Tito bequeathed this musical chairs system to stem regional in-fighting in so ethnically varied a country.

But the inauguration last Friday of Mr Branko Mikulic as Prime Minister may mark a new approach to the country's most serious problem—its economy, plagued above all with the highest inflation rate in Europe, of more than 80 per cent a year.

Change in economic policy is made more likely by the coincidence that, on the very day Mr Mikulic took over, the International Monetary Fund ended six-and-a-half years of supervision of the Yugoslav economy through successive standby arrangements. Henceforth the IMF will only be monitoring certain performance targets set by the Yugoslavs themselves, for the peace of mind of Western creditor governments and banks which have promised Belgrade a rescheduling of its debts until 1988.

For these past six-and-a-half years the Fund and Belgrade have done battle over what to do about Yugoslavia's seemingly chronic inflation. Successive Belgrade governments have pushed for, and on occasion briefly tried, the "quick fix" cure of prices freezes. Sometimes they seemed aware this was counter-productive in the long term but were driven nonetheless to try to anaesthetise the immediate political and social tension caused by inflation.

By contrast, the Fund argued for the "long haul." It has, rightly, seen inflation as simply the symptom of the many distortions in the balkanised Yugoslav market, the lack of a free flow of goods, capital and labour, myriad regional monopolies, and quite inadequate financial discipline. Only when these root illnesses are cured, the Fund has said, will the symptom of inflation abate. Holding the purse strings at standby credits, the Fund was generally able to make its view prevail.

That restraint on Yugoslav policy is now gone. Mr Mikulic comes to his new job from his home republic—where politicians tend to play a very "hands-on" role—with a reputation as an interventionist. This came through in his inaugural speech in which he said that, while he favoured the principle of giving market forces greater sway, he would not shy away from slapping administrative controls on prices where necessary.

It is easy to sympathise with those in the "quick fix" lobby in Yugoslavia. They see inflation taking its uneven toll on an uneven country, with vast regional disparities, from Slovenia in the north, with an almost Austrian standard of living, minuscule unemployment, and a tradition of emigration for the few who cannot get jobs, to Kosovo in the south, with high unemployment compounding poverty and immobility akin to the Middle East.

These are the sort of disparities only to be found within the EEC, rather than in any single other European country. But despite an EEC-type regional fund, Yugoslavia's regional income differentials are widening, not narrowing, and inflation is undoubtedly one of the reasons for this.

The fact that there is also nationalist agitation for greater autonomy in ethnically Albanian Kosovo gives the issue considerable sensitivity.

Economic reforms

But the plain fact is that price freezes, by themselves, have only worsened expectations of inflation. So have confusing government policy statements, of the kind made by Mr Mikulic last week.

There could be a case for further price control (about half of producer prices are already regulated) if it were combined with further economic reforms. A number of legal changes were made at the start of this year. Inflation accounting is being introduced to clarify where the phantom profits and real debts are. But the prospect of actually closing some companies scares the politicians. Banks are supposed to act more independently, but still it seems behave like financial filling stations for their customers (who under the Yugoslav system are also their owners).

Further efforts to deal with these problems might mitigate the alarm that Yugoslavia's creditors might otherwise feel about Belgrade trying to wish its inflation away again with a price freeze. If no such programme is forthcoming, then creditors might well be concerned about the long term prospects of an economy to which they have given long term debt relief.

Raiding the pension funds

BRITAIN'S pension funds are now estimated to control an astonishing £200bn or so of assets. Yet there has always been a certain ambiguity about the ownership of this monumental nest egg.

In theory the assets are held independently in trust for future pensioners. The reality, however, is that employers not only tend to retain a crucial measure of control over the investments through majority representation on boards of trustees; they also hold on to a substantial ownership interest after setting up the trust under which the pension scheme is administered.

That point has been bluntly underscored by recent case law and by Mr Nigel Lawson's budget proposals for the taxation of rapidly mounting pension fund surpluses. There is now a risk that the interests of the beneficiaries will not be given due attention in the debate over the handling of those surpluses.

The Treasury has, of course, a legitimate concern to ensure that companies do not use pension funds as a convenient shelter for excess profits. Hence the Inland Revenue's past insistence that pension funds should pay back money to the company if a scheme appeared to be over-funded.

Today, however, it is the companies that are actively seeking to claw back surpluses, as the widely publicised case of Gomme Holdings indicated last year. The Treasury is as keen as some of the more opportunistic employers to cash in on the fruits of a long bull market.

Greedy employers

So far the argument has turned on whether the Chancellor's threshold for the tax —an absurdly low 5 per cent surplus of assets over liabilities — should be raised. Undoubtedly it should. But the time has surely come to broaden the discussion to ensure that any increase in transfers of resources from pension funds back to employers is accompanied by adequate safeguards for the beneficiaries.

At present many pension scheme trust deeds prohibit the employer from clawing back money, except on a winding up. Not surprisingly, the Government is being lobbied to amend the Finance Bill to incorporate an enabling power for trustees to overcome this prohibition. If the point is conceded, it is essential that the beneficiaries should be protected from greedy employers who are tempted to raid the fund. There is an obvious watchdog role here for the Occupational Pensions Board.

A more important question concerns the methods chosen by boards of trustees to reduce their pension fund's surplus. The Finance Bill gives trustees the choice of reducing or eliminating employer and employee contributions, clawing back funds directly or increasing pension benefits. But it has nothing to say about relative priorities.

If that is not the job of a finance bill, then the question needs to be addressed from elsewhere. For one of the less attractive features of the private occupational pensions business in Britain is that in spite of the pension funds' spiralling surpluses, a majority of private sector funds continue to reduce the benefits they pay to pensioners each year in real terms.

Against that background a decision to reduce contributions or to claw back funds is not merely at odds with the legal concept of trust, it is downright dishonest.

All this serves to underline the very haphazard way in which occupational pensions have developed. In Britain major changes in the shape of private pensions provision have been as much a by-product of tax legislation and incomes policies as any conscious strategy.

It is high time Mr Norman Fowler, whose department is supposed to take the lead in Whitehall on these matters, stirred himself on the pensioners' behalf. It is simply not good enough for the Government to sweep the problems of private occupational pensions under the carpet as it enthusiastically pursues its plans to divert individuals away from institutional forms of saving towards direct share ownership.

Sir Nigel Broackes

Bruised Trafalgar struggles to regain its political touch

By Lionel Barber

AS A long-standing member of Britain's corporate squirearchy, Sir Nigel Broackes has often stood out as a maverick; a businessman whose intuition leads where many rivals fear to tread.

This instinctive approach has helped to create one of the country's most successful first-generation industrial holding companies: Trafalgar House. In 25 years, Sir Nigel has turned a small shell property company into a shipping, hotels and construction conglomerate with nearly £2bn sales and £150m pre-tax profits employing 32,000 people in the UK alone.

Trafalgar has thus come to be seen almost as a model for industrial regeneration; Sir Nigel was even chosen in 1980 for a four-year stint as chairman of the London Docklands Development Corporation. Here was the suave entrepreneur chosen by a Conservative government to create jobs and to sell capitalism to the socialists in Tower Hamlets.

But in recent months, Sir Nigel and Trafalgar have hit choppy waters. A substantial move into oil and gas before the start of the oil price slide has jolted confidence among investors; and Sir Nigel, a Conservative to his public school core and an enduring admirer of Mrs Thatcher, suddenly appears to have fallen out of favour with her government, which he now describes as "mature with some very immature members."

This disillusion stems from setbacks which Trafalgar House has suffered in the past year in its dealing with government.

First, the company lost to Japan a £450m contract to build a second bridge across the Bosporus — which Sir Nigel blames on civil service delays in agreeing a favourable trade credit package.

Then came the rejection by the Cabinet of the proposal by a Trafalgar-led consortium, Euroroute, to build an ambitious road and rail link across the Channel, in spite of Mrs Thatcher's supposed personal preference.

And the final blow, two months ago, amid bitter recrimination, was when Trafalgar's £100m bid to buy the state-owned Vickers warship yards was rejected in favour of a lower-priced management buy-out.

For the City of London this conspicuously low strike-rate in the political arena is disturbing. Along with Trafalgar's move into oil and gas, it has caused several analysts to question the group's direction.

The City, as Sir Nigel points out, has misread Trafalgar before. When he and his former partner Mr Victor (now Lord) Matthews diversified from property investment into construction in the mid-1960s, there were many who said they would not succeed. And when Trafalgar paid £25m for Cunard—including the QE2—at the bottom of the shipping market in 1971, there were plenty of sceptics.

The group subsequently moved into the then distinctly unfashionable Fleet Street, buying Express Newspapers from the Aitken family. In 1984, Trafalgar took a 50 per cent stake in Gammon, the Hong Kong property concern, at the time when many investors' confidence in the colony had buckled.

With hindsight, many of these decisions look smart. Construction, starting with Trollope & Colls 20 years ago, has been the powerhouse driving the company's profits growth.

Cunard has, in the words of Mr Eric Parker, Trafalgar's chief executive, been an outstanding success. Coupled with the company's hotel interests (which include the London Ritz) it doubled pre-tax profits to £31m last year.

So it is easy to underestimate a stock which is by nature counter-cyclical. There is also underlying strength: Trafalgar's gearing stands at 30 per cent of shareholders' funds of £500m and, as long-term investors have recognised, it has regularly increased dividends over the past 15 years.

A question mark remains, however, over the wisdom underlying the group's shift in direction shortly after the disposal of Express Newspapers, when it sought a fourth leg to its property, construction and shipping businesses.

Mr Parker, an accountant by training who has been a driving force within the group for 20 years, says that the board was anxious to limit its exposure in property. It rejected financial services and retailing. Having toyed with defence contracting, Trafalgar chose two separate but related paths in the pursuit of assets—a swift move into oil and gas and a rapid build-up in offshore engineering interests. Between 1983 and 1985, there was a brisk acquisition activity, using mainly cash rather than shares.

On oil and gas, Trafalgar set up a business from a standing start, having hired Mr John "J.R." Williamson, a former BP executive who had taken early retirement. It was Mr Williamson who helped Trafalgar pick up 1 per cent of BP's Forties Field in the North Sea at a price which with hindsight looks good for BP. In addition, Trafalgar bought Candecca, the onshore oil and gas business for a generous £78m.

By the end of 1984, Sir Nigel reported a first-time contribution from the new oil and gas division of £30m. The group appeared caught in a virtuous circle: while it was cashing-in on oil production sales, it could also offset its petroleum revenue tax against exploration and appraisal costs.

Today, with oil prices fluctuating around $15 a barrel, that circle has been broken. Trafalgar now faces declining revenue, while fresh exploration work is more or less out of the question. The roof of Trafalgar's tax shelter has blown off, removing what was in effect government money used to fund the group's drilling programme. Moreover, the logic of the Candecca/Forties deal now looks suspect: the 1985 Budget disallowed the offsetting of onshore expenditure against an offshore tax bill. For once Mr Parker and Sir Nigel, formidable exploiters of tax breaks, have been wrong-footed.

"The market has moved against us," says Mr Parker, bluntly. But he, like Sir Nigel, insists that investors should take a long-term view. The investments should be seen in the light of a strategic move relevant to the 1990s.

The long view, especially from a heavy industrial and engineering company like Trafalgar, is not what the London market is accustomed to hearing these days. Market uncertainty applies equally to the group's commitment to the offshore industry — highlighted by its purchase of the Scott Lithgow shipyard on the Clyde.

Trafalgar bought the yard and four miles of seafront on the Clyde for a snip—£12m—from British Shipbuilders. The yard had an appalling industrial relations record which many argue was the fault of management rather than the workforce. It also had next to no work, other than an £88m order for a semi-submersible rig from Britoil.

The rig was originally due to be delivered in May 1984. When Trafalgar arrived in March that year it was one-sixth built. Britoil tried to negotiate penalty payments with Trafalgar, which promptly asked for bonuses for early delivery by December 1985.

It is still not ready. Trafalgar faces penalties of up to $50,000 (£32,000) a day for the next 300 days, starting later this month. The bill could amount to between £10m and £12m if, as expected, delivery comes early next year. Meanwhile, Trafalgar is seeking £60m damages from British Shipbuilders over the valuation of the business.

One government official familiar with the yard's problems says: "Trafalgar have done a very good job in retraining the workforce and setting up proper management systems. But they took a gung-ho attitude to the offshore sector. They thought they could apply civil engineering techniques to the business and underestimated the difficulties." Trafalgar was not alone: its UK construction rival, Wimpey, has had similar difficulties over a long period with Highlands Fabricators.

There was a second, less obvious reason for Trafalgar's move to the Clyde. According to Mr James Poole, head of public affairs, the group took seriously the Government's stated interest in building a British offshore presence to compete with international heavyweights such as Bechtel and McDermott of the US.

Trafalgar had already sought cheap pickings in this sector by buying Redpath Dorman Long—the heavy engineering arm of the British Steel Corporation—in 1982 for £10m. It subsequently acquired RGC Offshore, another BSC subsidiary, for £15m, and thereby created a new offshore construction division, headed by Mr Sid Fudge, the highly regarded managing director of RGC for the previous five years.

Scott Lithgow gave Trafalgar extra fabrication capacity. The problem was that the orders failed to materialise. Moreover, Trafalgar, despite its reputation as a bruising competitor, lacked the track record to sell its wares to the big oil companies. A joint venture with Davy International, set up last year, has failed to gain a single contract. "Trafalgar did not realise that it had moved into a business where the clients call the shots," says a government official.

But if the market turned down, Trafalgar thought it had an alternative source of work. The Department of Trade and Industry, anxious to sell loss-making British Shipbuilders yards to the private sector, had suggested that Trafalgar would be well placed for future orders. Last year, Scott Lithgow tendered to build three Oberon-class submarines only to be told that the work was going to Cammell Laird on Merseyside, part of the soon-to-be-privatised Vickers.

Trafalgar had already failed to buy the Yarrow shipbuilding yard on the Clyde, losing out to GEC. The Cammell Laird deal looked as if the Government was fattening up the yard for the Vickers sale. Trafalgar entered the race.

In Sir Nigel's version, he was given a firm pledge by Mr Leon Brittan, the then Trade and Industry Secretary, that the Vickers sale would be handled on "a purely commercial basis." The Industry Department refuses to confirm or deny this. But what is clear is that the Vickers sale was heavily influenced by other considerations.

One minister who argued Trafalgar's case in Cabinet committee says: "Backbench opinion was heavily in favour of the management buy-out and Trafalgar did not appear to have many friends in the House of Commons. Yes, it was a political decision at the end of the day."

Sir Nigel was enraged. He now argues that Trafalgar has been used as a stalking horse in the privatisation sweepstakes, with the aim being to jack up the selling price.

But the criticism runs deeper. Following the Euroroute setback—where Sir Nigel insists Mrs Thatcher was overruled by Cabinet—he believes the Government—not Trafalgar—has lost direction. "The rules have become more maverick. The departments have got more selfish and the standards of conduct are not what they were. Where are the men of stature in the Cabinet?" he asks, pointing to the departure of politicians such as Mr Francis Pym and Lord Carrington.

The problem, recognised reluctantly by Sir Nigel, is that there are few votes in heavy engineering. And much as Trafalgar House would like to see itself mirroring the UK national interest, the strength of the Conservative backbenches means a reversion to what he describes without conscious irony as pork barrel politics.

Sir Nigel, having recently considered but rejected the idea of putting MPs on the Trafalgar payroll, now intends to lobby personally inside Whitehall. He wants more flexible export credit packages for big overseas contracts such as the Bosporus bridge. "At the moment the Government will only come up with a package to match another on the table. That puts us at a disadvantage."

He also wants to see development expenditure that can be set against petroleum revenue tax taking in the whole of the UK and its offshore waters, instead of the present limit of one individual major field. That, he argues, should mean more drilling and construction work for UK companies.

Elsewhere, the group is sticking to its aim of expanding specialist engineering skills—hence the £80m agreed bid for John Brown last week. John Brown's expertise in project management should blend well.

So Sir Nigel appears to be reconciled to "toughing it out." Having portrayed his group as a victim of British politics, he has a new message.

"I have great faith in the wisdom of the electorate. If this government does not get itself sorted out, it will be replaced by another one," says Sir Nigel. "It could just be that a change would be refreshing."

Men and Matters

Blank response to TV sell-off

Francois Leotard was until a few days ago one of the most popular political leaders in the new conservative French government.

Head of the republican party, the youthful and good-looking Leotard has long been seen as one of the natural heirs of former president Valery Giscard D'Estaing. But his liberal zeal has now got him into some political deep water.

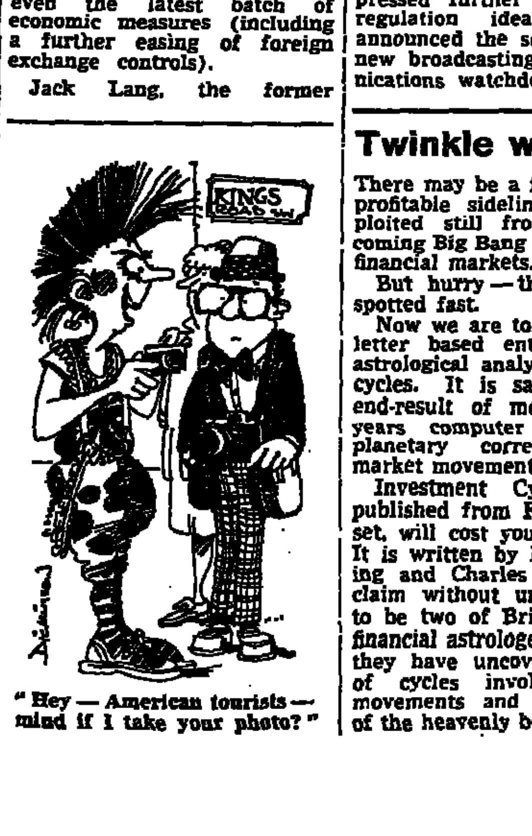
As communications minister he has announced the new government's broadcasting deregulation programme, the centrepiece of which will be the privatisation of the country's oldest, biggest, and hardest-up, state television network — the First Channel. The choice of the First Channel is seen as symbolic of the government's commitment to privatisation and to liberalism.

The decision is provoking an almighty fuss, over-shadowing even the latest batch of economic measures (including a further easing of foreign exchange controls).

Jack Lang, the former Socialist culture minister is campaigning to save French public television with the slogan: "Don't mess with my tele." The staff at First Channel are up in arms and have secured backing from their rivals. A strike is due to leave screens blank on all the three state channels on Wednesday in protest against the government's plans.

The strike will be of particular inconvenience to Leotard himself. He was due to give a major one-hour interview that day on a popular political programme—l'Heure de Verite.

Undeterred by a warning from Michel Rocard, the Socialist leader, that the TV privatisation issue could now turn against the Conservative Government, Leotard has pressed further with his deregulation ideas. He has announced the setting up of a new broadcasting and communications watchdog agency.



"Hey — American tourists — mind if I take your photo?"

Twinkle wrinkles

There may be a few remaining profitable sidelines to be exploited still from the forthcoming Big Bang in the London financial markets.

But hurry — they are being spotted fast.

Now we are to have a newsletter based entirely on the astrological analysis of market cycles. It is said to be the end-result of more than two years computer charting of planetary correlations with market movement.

Investment Cycles Report, published from Frome, Somerset, will cost you £100 a year. It is written by Michael Harding and Charles Harvey, who claim without undue modesty to be two of Britain's leading financial astrologers. They say they have uncovered a series of cycles involving market movements and the positions of the heavenly bodies but they are not forthcoming at the moment about the influence of the Great Bear.

Knock for BAI

When the Irish coalition government finally halted state funding for what has been called Europe's unlikeliest airport, at Knock, County Mayo (after it had swallowed I£9m of government money) one minister dismissed it as being built on "a foggy, boggy, hillside."

It is true that the main reason—perhaps the sole reason —for this remote airport, built to take heavy jets loaded with pilgrims, has been the unquenchable enthusiasm of a priest in his 70s, Monsignor Horan, to have people visit his beloved Mayo, and the shrine of Knock.

But Horan may yet have the last laugh over his many critics. He has brought in British Airports International, a subsidiary of the British Airports Authority, to manage his airport. And BAI is enthusiastic about Knock's prospects when it gets into its stride next year.

The airport could see 250,000 passengers in the year, says BAI, enough to make it profitable using flexible working practices and light staffing. A new airline Celtic Air, flying daily to Stansted, England, and charter flights, are expected to generate a lot of new business with the west of Ireland.

Maurice Buckby, the BAI man on the spot, says he wouldn't be there if he didn't think it could be made a going concern.

"It is not foggy here," he says. "A stiff prevailing wind keeps visibility good. Nor is it boggy."

The runway is laid on a flat-topped hill on solid granite. And that, says Buckby, makes conditions for landing and take-off among the best he has seen.

The world of aviation is beginning to think that behind Monsignor Horan's image of the dotty Irish country priest there lies a shrewd and skilful operator.

City rackets

If there is a higher-than-usual incidence of tennis elbow in the City of London today the pain will be suffered with fortitude by 50 or so Rackets players. They have just ended nine days of match play against an equal number of North American guests to celebrate the centenary of the Queen's Club, London.

There was a 10-year gap between the first transatlantic Rackets challenge in Montreal in 1976 and the Queen's event. Garth Milne of Laing and Cruickshank, who ran the London contest, is sure that competition is hotting up in the game, and that the North Americans will expect the Europeans to visit them for another international contest within two, or at most three, years.

Sworn in

The police, due to be given greater authority to control demonstrations under the Public Order Bill, do not always appear comfortable with their existing powers.

Betty Ward, president of the National Union of Public Employees, told the union's conference in Bournemouth, yesterday how a police officer had served an order imposing two conditions on a NUPE demonstration in Birmingham.

The first condition, that no public address system should be used at the open-air protest, was straightforward enough. But the second, insisting that there should be no "effigies" was queried by the union's local divisional official.

The police officer pondered and said "I think it means you can't swear."

Observer

FOREIGN AFFAIRS

The choice that still faces Mr Gorbachev

By Ian Davidson

THERE IS a tradition in Italian opera that the first entrance of the heroine is held back until the second scene, or even the second act, in order that the suspense may screw the expectations of her waiting claque to fever pitch. It is a device which needs to be managed with art and moderation. Too long a delay and the audience's patience wears thin; and when the soprano does sweep on, her opening aria must live up to the tension.

It seems clear that Mr Mikhail Gorbachev is not a close student of Italian opera. His first public appearance after the Chernobyl disaster was so long delayed that most of the tension had evaporated along with the radioactive cloud, and his prepared text was hardly a show-stopper. Apart from a slight updating of the numbers of the dead and the sick, he gave little information about the accident, its causes or its operational implications. It was not, on the whole, worth waiting 18 days for.

One theme was interesting, however. This was his unexpected emphasis on the connection between civil nuclear power and nuclear weapons, and the rather dramatic way he expressed his concern on this score. After accusing the West of using Chernobyl as a pretext to obstruct arms control, he went on: "Our attitude to this tragedy is absolutely different. We realise that it is another sound of the tocsin, another grim warning that the nuclear era necessitates a new political thinking and a new policy."

As if by coincidence, Mr Gorbachev's call for new political thinking was echoed the very same day in *Strategic Survey*, the annual report of the International Institute for Strategic Studies (IISS). "It is becoming increasingly clear," it said, "that arms control is not just about the reduction of nuclear weapons, but concerns strategy itself. Fundamental issues of strategic policy must therefore be resolved before the arms-control process can hope to advance far." Among other issues, it raised the question of the role of US nuclear weapons in the defence of Europe, and the relationship between offensive and defensive strategic systems. "Both sides," it concluded, "will need to make fundamental strategic choices, but there are as yet all too few indications that this requirement is being acted on."

On the other hand, the IISS has nothing good to say either for President Reagan's dream of a perfect Star Wars defence, or for Mr Gobachev's plan for the elimination of all nuclear weapons by the year 2000. "The grand designs of both leaders are curiously similar: both aim quiet explicitly at the impossible goal of eliminating nuclear weapons — though Mr Gorbachev, with a straight face, proposes to achieve this revolution in 14 years, while Mr Reagan's time-scale is not precisely spelled out. To the extent that both leaders know that this goal is unrealisable, they merit the criticism of informed observers for peddling humbug to a gullible and hopeful public."

Quite so. The temptation of grand Utopian schemes, apart from any propaganda mileage they may offer, is the illusion that an imaginative leap into a wonderful future can exonerate the superpowers from grappling with the recalcitrant dilemmas of the here

This tragedy is another grim warning that the nuclear era necessitates a new political thinking and a new policy

and now; and the temptation is all the greater because the dilemmas seem to be more recalcitrant with every passing year.

The central dilemmas for the West are almost as old as Nato itself. The first question posed by the IISS, over the role of US nuclear weapons in the defence of Europe, is only a special case in a more general problem. How is Europe to be defended against an assumed Soviet threat? If Europe cannot defend itself, how reliable and how durable will be an American commitment which puts the US in the firing line? Is the credibility of that commitment likely to be strengthened, or weakened, in circumstances of nuclear parity?

The fact that these questions are old does not mean that the Alliance has ever come up with anything better than a patchwork quilt of questionable propositions. Because Europe has until now been prevented, by its political fragmentation if by nothing else, from matching the Soviet Union in nuclear weapons, it has preferred the safe option of handing over the problem to the US and spending much less on defence than its superpower protector. At least, it may have seemed a safe option in the days of US superiority; it seems much less safe when everyone, starting with President Reagan, is deeply worried about nuclear weapons.

Nato's strategy of "flexible response" is a euphemism for the proposition that, in the event of a Soviet attack, the West would be prepared to compensate for its weakness in conventional force by using nuclear weapons first. There are just two problems: the West does not have nuclear superiority at any level; and the more the professionals think about using nuclear weapons, the less they like the prospect.

The nuclear strategists take flight into ever subtler refinements of counter-force targetting, in the hope of taking out the other side's nuclear weapons; but the soldiers look for ways of evading the nuclear dilemma, by strengthening conventional defence through new tactics and new technology. One result of all this ferment is that no one any longer knows how to mesh an effective defensive policy with a reliable arms control doctrine; and the more the soldiers try to replace nuclear weapons with super-accurate conventional missiles, which may be small and mobile, the harder it gets to devise an arms control regime which depends on counting numbers.

Three years ago, the US Scowcroft Commission recommended the Administration moving away from multi-warhead missiles in fixed silos, to single-warhead mobile missiles, as a way to recover invulnerability of ICBMs and strategic stability; today the Pentagon is demanding that the Geneva talks should ban

all mobile missiles, because they are hard to count, and because the Russians have just started deploying two new mobile types.

Four years ago, the US proposed the banning of all medium-range Euro-missiles; today the Europeans fear that the main effect of such a ban would be to underline Soviet superiority in short-range missiles, as well as its conventional advantage.

Three years ago President Reagan launched his Star Wars programme for perfect safety from nuclear attack; today no one knows whether it will settle down as a modest scheme for propping up the existing strategic balance, whether it will render all arms control impossible, or whether it will launch the world into a new and terrifying arms race.

One fact seems incontrovertible: if a new strategic thinking is required, it will not come from the Reagan Administration. So long as the President remains wedded to the dream of a perfect astrodome defence, there will be little pressure within the Administration to force the working out of a coherent compromise between the hawks and the pragmatists, between the defence lobby and the arms controllers; and the pressure will be even less so long as Washington believes that it has got the Russians "on the run." Some US officials cling to the hope that the fixing of a date for the second Reagan-Gorbachev summit will concentrate minds in Washington, but this seems a forlorn hope; half a year is too short to articulate a coherent strategic posture. If there is to be any creative thinking, it must come either from the Europeans or from the Russians. The Europeans are scared of irritating the Americans: so that leaves the Russians.

If Mikhail Gorbachev is really worried by the nuclear arms race, he faces three main arms control options: deep cuts in long-range strategic weapons; a ban on all Euro-missiles; or a balance in conventional forces in Europe; or even all three. For the time being, for all his talkativeness, it seems clear that he has not made a choice.

A big reduction in strategic nuclear weapons should have lots of foreign policy appeal. It could be a stepping-stone to a major rapprochement with the US superpower, since it would appear to reduce those weapons directly threatening the US

Both leaders merit the criticism of informed observers for peddling humbug to a gullible and hopeful public

homeland; it could inject an unprecedented element of predictability into the strategic equation, since a big reduction would have to be phased in over at least a decade; and it might have the pulling power to secure corresponding guarantees against any destabilising, or at least any early, deployments of Star Wars systems.

If, on the other hand, Gorbachev's main worry is that Europe is sitting on a powder-keg of nuclear weapons, his preferred option might be to go for a balanced (that is, unequal) reduction in conventional forces on the central front. This was the burden of his recent speech in East Germany, when he spoke of substantial force cuts "from the Atlantic to the Urals." If the Soviet Union were to negotiate effective equality in conventional forces, it would become much easier for Nato to accede to arguments that battlefield nuclear weapons are dangerous because they are vulnerable and uncontrollable, and should be reduced or even eliminated entirely.

Since last November's Geneva summit, attention has been focused on the third option, a Soviet suggestion that there could be an interim agreement on Euro-missiles, independent of the progress on strategic nuclear weapons and space. To the US, there is obvious attraction in any negotiation which is decoupled from Star Wars; to the Europeans, such an agreement might seem a political vindication of the long Euro-missile trauma of 1979-83.

There are just two problems: it is hard to imagine any nuclear agreement so long as the major issues of strategic weapons, strategic defences and strategic stability remain in doubt; and a free-standing Euro-missile deal can only focus more anxiety on short-range weapons and conventional forces. The implication would seem to be that a reconstruction of the arms control process needs to start either at the top or at the bottom, or both, but not in the middle.

The conventional force talks resumed in Vienna last week, the nuclear negotiations in Geneva the week before. Unless we soon see signs of movement at the negotiating tables, we shall know that the "new political thinking" called for by Mr Gorbachev and the IISS is still conspicuous by its absence.

"The accident at Chernobyl showed again what an abyss will open if nuclear war befalls mankind. For inherent in the nuclear arsenals stockpiled are thousands upon thousands of disasters far more horrible than the Chernobyl one."

Mikhail Gorbachev —in last week's television address.

COMPARISON OF SOVIET AND US PROPOSALS FOR STRATEGIC NUCLEAR FORCES

	1985 inventories* US	USSR	Inventory proposed for each side: US proposal	Soviet proposal†
Total warheads	10,600	9,804	‖	6,000‡
Total missile RV	7,656	9,384	4,500	‖
ICBM RV	2,118	6,420	3,000	3,600
ICBM and SLBM launchers	1,634	2,398	1,250-1,450	‖
Throw-weight (million kg)	4.4	11.9	6.0	‖
Bombers	263	170	350	‖
ALCM	1,200	0	1,500	‖
SLCM§	96	0	0	‖

‖ No proposals made.
* Source: White House Background Briefing on Geneva summit, 10 October 1985, The Military Balance 1985-1986 (London: IISS, 1985).
† First phase in three-stage plan to eliminate all nuclear weapons by end of 1999.
‡ Includes all nuclear arms which can strike the homeland of the other side.
§ SLCM with range of over 600 km.
RV—Re-entry vehicles; ICBM—Inter-Continental Ballistic missiles; ALCM—Air-launched Cruise missiles; SLCM—Sea launched Cruise missiles. SLBM—Submarine-launched ballistic missiles.

Lombard

Testing time for Chinese walls

By Barry Riley

AMIDST all the arguments about Chinese walls and conflicts of interests in the City of London there is no more intriguing case than that of MIM, the one-time Montagu Investment Management which is changing hands for the second time inside a year.

Within the past few months MIM has unblushingly made use of its pension fund clients' money in order to pursue its own corporate ambitions. It has levered itself out of the undesired institutional ownership of the US insurance giant Aetna Life & Casualty, to which it was sold by Midland Bank last July, and has engineered its purchase by Britannia Arrow Holdings.

Among the rewards for MIM's executive directors from this exercise will be "golden handcuff" bonuses worth up to £1.4m in aggregate if they stay until 1990 and 1991, and participation in an expanded Britannia Arrow share option scheme "to encourage their continued motivation."

In December MIM allied itself in a concert party with the controversial figure of Mr Robert Maxwell and with the Britannia Arrow Board. This concert party succeeded in blocking the 140p a share bid for Britannia by Guinness Peat early this year.

During the bid battle, and subsequently when Guinness Peat sold out its own stake, MIM invested more than £25m of its clients' funds in a 12.9 per cent stake in Britannia, mostly at around 140p but including some purchases at near 150p. They are now showing a short-term loss, with the share price standing at 124p.

The motivation of MIM and Mr Maxwell was not clear at the time, but in late March it was announced that Britannia was to buy MIM, a deal for which Britannia is now raising nearly £40m through a rights issue.

The background to all this is that the once obscure and sleepy world of investment management has, like most sectors of the financial services industry, entered a new era of commercialism and competitiveness.

A number of fund management companies have been floated on the stock market, making certain managers into millionaires. Moreover clients have become much more performance-conscious, especially in the pension fund field, which is MIM's most important area of operation.

Previously the main focus of concern about conflicts of interest in fund management has been that the investment offshoots of merchant banks and other financial groups may come under pressure to support the activities of other departments.

For example, fund managers feel pressure to subscribe for new issues at risk of failure, or to back one side or other in a takeover bid involving a corporate finance client company.

For this reason, non-aligned fund management concerns have recently taken to emphasising their independence, as a safeguard against such pressures. But the question is whether even independent managers may sometimes have corporate as well as purely investment reasons to steer client funds in particular directions.

Of course, MIM's activities have not broken any rules. Presumably their clients will have been pleased by MIM's investment performance over the past few years, and may not object to the rather aggressive investment stance the company has taken on this occasion.

However, the regulatory climate is changing rapidly. Until now investment management has been virtually unregulated, but this is about to change. An embryo self-regulatory body called the Investment Management Regulatory Organisation has been established, and companies such at MIM will be expected to join it in the next year or so.

In drafting its rule-book, IMRO will be required to comply with the overriding rules of the top regulatory body, the Securities and Investments Board.

The use of funds for reasons in addition to purely investment considerations is not necessarily in conflict with the clients' interests. But it is clearly a situation which any regulatory body will feel it ought to monitor.

Letters to the Editor

Incentives for employees

From the Joint Managing Director, Cockman, Copeman & Partners.

Sir,—The Taylor report on "The right approach to more jobs," published by the Centre for Policy Studies (May 14), leaves me wondering whether people like Mr Cyril Taylor, chairman of the American Institute for Foreign Study and a former GLC deputy leader, clearly understand existing tax incentives for employee share ownership schemes.

The Finance Act 1980 provides a very attractive financial incentive for employees to acquire shares in their employing company through the proceeds of a Save-As-You-Earn contract related to a savings-related share option scheme. There are now over 500 of these schemes operating in British companies.

If Mr Taylor and the CPS do not feel that a savings-related share option scheme, which requires at least a five-year waiting period before employees actually become shareholders, is good enough, then the Finance Act of 1978 certainly does provide companies and their employees with real tax incentives to create a body of employee shareholders. Under this legislation the tax incentives are for an employee share participation scheme linked to a profit sharing plan and which, consequently, is directly financed by the employing company. This type of scheme can be operated as if the company is gifting shares to the employees or, and far more effectively and in keeping with the current climate of performance-related rewards, as a genuine profit-sharing share participation plan. In this way the profit performance of the company today determines the amount of money the company is able to allocate to the plan.

I agree that the Finance Act 1984 relating to selective share option schemes (over 1,400 having been approved by the Inland Revenue) are not, in most cases, doing very much to stimulate wider employee share ownership. The combined effects of savings-related share option schemes and profit-sharing share plans, however, do serve to achieve the objectives of which Mr Taylor speaks, and it is only the state of inertia, lack of boldness and foresight in many boardrooms, perhaps coupled with some technical shortcomings in the legislation and undue caution on the part of institutional shareholders, that has prevented a more rapid growth in the number of approved employee share schemes throughout the United Kingdom.

Given the current debate on tax incentives for profit-related cash payments for employees, for which tax incentives might be incorporated in next year's Finance Bill, I would suggest to the CPS and the Chancellor of the Exchequer that the one remaining tax incentive which would give a real boost to employee share ownership would be the introduction of a new allowance for companies to gain additional relief from part of their corporation tax liability (or a corporation tax credit if appropriate). A corporation tax incentive, in addition to the existing income tax relief, might be too difficult for a board of directors and institutional shareholders to resist.

Richard T. Greenhill,
26-28 Bedford Row, WC1.

Partnership in profit

From the Executive Director, Job Ownership

Sir,—I was puzzled, in your generally admirable leading article (Sharing more than profits, May 13), by the reference to the "rather unexciting" growth of the John Lewis Partnership. And I can only assume that it was either untutored (or churlish) or based on the sort of growth rates which are rarely achieved except by companies like Slater Walker before its fall.

Readers of your employee ownership supplement (April 8) may or may not have noticed two telling sets of comparative statistics. The first compared the sales indices of the John Lewis Partnership department stores with those of national non-food retailers (NNFR). The second did the same job for Waitrose on the one hand and national food retailers (NFR) on the other. The results are quite striking.

	JLP dept stores	Waitrose	NNFR	NFR
1981-82	100	100	100	100
1985-86	163	176	139	136

These comparative performance figures are worth drawing to readers' attention partly to put the record straight. But they also have relevance to the theoretical employee ownership debate. For they seem to confound the assertion, commonly made by professional economists, that employee ownership is inimical to growth.

Robert Oakeshott,
9, Poland Street, W1

Penalties of VAT

From Mr R. Apsion

Sir,—Mr Baldwin (May 14) has not read VAT Notes 1/86, sent with his April VAT return, which say, "From 1.10.86, if your VAT return and all the VAT due for the period are not received in the VAT central unit by the due date, you will be in default. If you default twice in a 12-month period, you will be sent a surcharge liability notice warning you that if you default again in the following 12 months, you will have to pay a surcharge. Once a notice has been issued, you will have to pay a surcharge each time you default until you have not been in default for 12 months."

That hardly sounds Draconian, after 13 years, during which some businesses have deliberately, consistently and blatantly played the system, by delaying payment of VAT for months, and even years.

Mr Baldwin's last paragraph, in which he pleads for an extra month's credit for "smaller firms," ignores the fact that there has always been a month's grace for payment after the end of each VAT quarter, ample time for any business with proper credit control to collect the VAT charged out to its customers.

In the case of retail cash firms, the net VAT which they have taken in since the first day of the quarter gains interest on deposit, or relieves their overdraft, until they remit it to Customs and Excise.

Robert Apsion.
17 Ganghill,
Guildford, Surrey

Gas reserves estimates

From Mr J. Stern.

Sir,—Professor Peter Odell (May 13) is entirely correct to say that a decline of less than 3 per cent initially recoverable proven and probable gas reserves is not significant and that is why I made no mention of this in my original letter. Odell is also entitled to be pleased that the Department of Energy, as a result of new seismic interpretation, has uprated its estimates of undiscovered reserves to somewhere near the figures that he has been publishing over the past two decades. My point was that dramatic additions to categories of speculative reserves, merely obscure more important and immediate issues.

The point of my letter was that, in 1985, remaining recoverable proven and probable reserves fell by 2.9 tcf (trillion (million million) cubic feet) or by nearly 7 per cent, and the decline in proven reserves amounted to 10.6 per cent which is the largest annual decline in remaining proven gas reserves as far back as I can trace published Brown Book statistics (1973). The reason for this decline, as far as can be gleaned from various sources, is that ostensibly established fields such as BP's Villages and UK (not to speak of Norwegian) Frigg, turned out to have less recoverable gas than was originally thought. This flatly contradicts Odell's assertion that estimates of reserves in discovered fields are simply a function of short term demand expectations.

Combining this with current levels, and near term expectations of oil prices, which virtually rule out new development other than in Southern Basin dry gas fields, there is some uncertainty about UK gas supplies after the (now hastening) decline of the Frigg field. As a result, far from expanding into power generation, as Odell suggests, British Gas may consider a move in the opposite direction and reduce its contractual commitments to industrial customers. Of course, if the present situation of \$10-\$15 oil and sterling over \$1.50 was to continue through the early 1990s, the Corporation could probably have afforded to put Sleipner gas into power stations, but I suspect that is not what Odell (or the Norwegians) intended.

Jonathan P. Stern
(Head, Joint Energy Programme),
Policy Studies Institute,
Royal Institute of International Affairs,
10, St James's Sq, SW1.

Extra voluntary tax

From Mr M. Paterson

Sir,—Mr Cole (May 15) states that Mr Fraser is in error in overlooking the fact that the actual cost to the individual, in the example given, is only 29 per cent of the £575 deemed to be added to his gross income, i.e. £166.75. He then goes on to claim that the company-subsidised motorist is thus over £280 better off at the expense of everybody else. He is in fact better off only at the expense of the company who employs him, who could with advantage both to themselves and to him increase his salary by £448 and leave him to buy his own petrol. In the example given it is in fact the Inland Revenue that benefits, because more tax is collected from the scale charge (£575) than from the gross cost of the petrol (£448, plus extra NI contributions). I have noticed that many companies pay additional voluntary tax in this way, and, to paraphrase Mr Cole, "multiplied millions of times the rest of us are better off from such money."

Martin Paterson,
10, Buckingham Place, SW1

FINANCIAL TIMES

Monday May 19 1986

Terry Byland on Wall Street

Ragged end to dynamic advance

IN A STOCK market now heading southwards with increasing speed, investors are beginning to ask whether this is just another step in the correction phase that has held the Dow Jones industrial average down to the 1,800 range, or is it something more sinister.

Certainly, the dynamic advance of the past seven months has turned ragged. Certainties about lower oil prices and interest rates are now challenged on all sides, and for good measure, Wall Street has the Senate committee support for the Packwood tax proposals to worry about.

Brokerage analysts remain relatively bullish, willing to agree that a correction is under way, but forecasting that the stock market will resume its advance before midsummer.

The fall in world oil prices means pain first and pleasure later. The pain is with us now in the form of tumbling profits in the oil industry, highlighted by a warning from Exxon and by write-downs at the smaller oil companies. The pleasure will come later this year when corporate earnings begin to show the benefits of the huge fall in energy and fuel costs.

We were all too optimistic about corporate earnings for the first quarter, thus runs Wall Street's theme song. The fall of around 2 per cent in first-quarter profits – the fifth quarterly consecutive downturn, was only to be expected, given the timetable for the fall in oil prices.

The second-quarter may not be too clever either, but, according to Wall Street, the second half of the

Stock	Price ($)	P/E on est. 1986 earn.
Alcoa	38¾	14.8
Reynolds	45⅜	14.1
Alcan	25⅞	15.6
Kaiser	19⅛	26.4

year will make up for all. Forecasts are still for an increase of up to 14 per cent in corporate profits for the full year.

The same argument is applied to the US economy as a whole. Sluggish it may be but just wait until the second half.

Shearson Lehman Brothers is willing to see the Dow give back about one quarter of its 42 per cent gain since last September, but not more. That would allow investors to take a further fall of 100 Dow points from Friday's close before reaching for the panic button.

The case for a rebound in the stock market is strengthened by the relative weakness of the 1985 fourth quarter. That might push this year's final-quarter profits to peak levels, which has traditionally been a spur to peaks in the stock market.

Worries that weak credit markets might unsettle equities may be overdone. Three-month Treasury bill rates (at 6.20 per cent) remain below the federal discount rate (at 6.50 per cent), traditionally a bull sign for stocks – and one unlikely to change soon, now that hopes for another discount-rate cut are fading.

Unsurprisingly, market analysts are turning their attentions towards stock sectors likely both to withstand the correction phase that has been so widely identified and to lead the way forward when the advance is resumed.

That takes the search into some unexpected quarters. Stocks in the aluminium industry, which have been among the main casualties of the deflation period of the mining and metals area, are finding buyers.

Improving aluminium prices have already been reflected in much improved profits, yet stock prices remain well off their 52-week peaks.

Alcoa, having turned an $8.2m loss into a $17.5m profit in the first quarter, appears set for a substantial earnings advance both in this year and next.

Estimates range from $2.25 to $2.75 for 1986, against a loss of 23 cents last year, with perhaps $5.75 to go for in 1987. The current earnings multiple of 14.8 times estimated earnings for this year compares with 16 on the Standard & Poor's 500 index, indicating room for growth in the share price. The same case can be made for Reynolds and for Alcan, and to a lesser degree, for Kaiser Aluminum – all showing significant turnrounds but all selling below their 52-week highs and on attractive earnings multiples.

The market's underlying confidence in a rebound in stock prices sooner rather than later showed itself last week in the relatively modest selling pressure as market indices were tumbling. The much abused stock index futures markets may now be proving their worth by taking the sting out of a short-term setback in the equity market.

TWO-WEEK SHARP DECLINE IN LIFE SECTOR

UK market slide halts Target Group flotation

BY LUCY KELLAWAY IN LONDON

TARGET GROUP, the UK life assurance and unit trust company, has postponed indefinitely its stock market flotation, which was due to take place next month. The company, which might have been valued at over £125m ($191m), has decided not to go ahead with its plans because of the poor state of the market.

Target is the first large issue known to have been pulled since the fall in the market started. From its peak at the beginning of April, the FT All Share index has fallen by about 7 per cent while life assurance shares have on average dropped by over 10 per cent.

In the last six weeks the market has been faced with heavy cash calls, including nearly £2bn of rights issues. Since Wednesday last week when National Westminster Bank made a record £714m call on shareholders, the FT 30 index has fallen by more than 50 points, and London financial analysts fear that more issues will be cancelled.

Mr John Stone, managing director of Target, said: "The company's strengths in the retail financial services market would not be fully reflected in the current flat mood of the life sector. In the interests of our existing shareholders we have decided to defer our flotation plans until we are confident of a more buoyant sector." He said that he hoped a listing would be possible in the autumn.

The life sector has fallen sharply over the past two weeks partly in response to a £357m rights issue from the Prudential, the leading UK insurance group.

Morgan Grenfell, which itself is getting ready for a summer listing, is the largest shareholder in Target and will be affected by the delay. Morgan Grenfell already owns nearly 20 per cent of the company while its funds own 10 per cent, and after the flotation it had the option to buy from shareholders a further 20 per cent of the equity.

Target was established as a unit trust group in 1962 and now manages funds of more than £570m. In 1980 the company was bought by J. Rothschild and underwent a change in direction to concentrate on "upmarket" unit-linked life assurance, and now claims to be one of the fastest-growing companies in the industry. Its total premium income in 1985 was £138m, and at that time its life fund was worth £357m.

In 1984, when J. Rothschild was planning to merge with Hambro Life, Target's management arranged a buyout with the backing of Morgan Grenfell in a deal that valued the group at £48m. Since then, Target's premium income has doubled, and funds under management have risen by more than 50 per cent.

Americans round up Britain's llamas

Continued from Page 1

when they are very cross or afraid, they dredge up from their stomach lining a horrible green slime, which "smells dreadful," according to Dr Bourne.

The gestation period for llamas is eleven months, not exactly a fast turnover in breeding terms, but necessary as new-born llamas needed to be mature enough to run the same evening with the herd if necessary.

Most breeders in Britain are small-scale and finding it increasingly hard to find good fresh breeding stock. "At the moment we allow line breeding (father and daughter), but we'd like to find an unrelated female," says Dr Bourne. Line breeding weakens the stock considerably.

Mr Keller's 15 llamas represent one of the largest herds in the UK. In the "king of llamas" in the US, Mr Dick Patterson, has 700 on his ranch in Oregon – the biggest collection in the world. Mr Patterson founded the American Llama Club, now the International Llama Association, which has chapters in every US state.

Mr Paul Orkney-Work and his wife Ruth Janette Ruck are two of the foremost British llama experts. They live on a 280-acre hill farm in Beddgelert in north Wales and have bred llamas along with their ewes, Welsh black cattle and sheep since 1974. They have a herd of six.

Mr Orkney-Work has seen the American enthusiasm at close range. He and his wife were invited by Mr Patterson, who was host, to attend the world's first llama breeders' conference in Oregon in 1982.

"We just cannot compete with US prices. A female llama went for $12,600 last year at the annual llama auction in Nebraska. Many people in this country who want llamas as pets just cannot get them. The Americans are buying up all the breeding stock."

A number of British breeders are forming loose collectives in a bid to counteract the American plunder. "We have agreed to help each other to try to rebuild the breeding stock," says Mr Orkney-Work. "The best males will be exchanged between breeders to build up fresh lines."

This is indeed the only solution, according to Mr Andrew Greenwood who, with two colleagues, runs a zoo and wild animal medicine practice based in West Yorkshire. Private breeders need to stick together rather than sell to animal brokers who export, almost totally to the US, for the highest price.

BA plans moves to counter traffic fall

BY MICHAEL DONNE AND LYNTON MCLAIN IN LONDON

BRITISH AIRWAYS, the state-owned UK airline, is set to freeze recruitment and announce new marketing measures to counter falling traffic on North American routes.

Meanwhile, severely strained relations between British Caledonian Airways, Britain's second largest intercontinental airline, and International Leisure Group, the Intasun holiday and hotels business, have cast doubt on whether a merger between the two companies can be agreed.

The airlines have suffered from a wave of holiday cancellations by US tourists, caused by fears of terrorism in the wake of the Libyan bombing, although the weaker dollar had already earlier begun to indicate a traffic downturn, especially from the US to the UK.

Passenger bookings on BA's North Atlantic routes are down by between 15 and 20 per cent so far this year compared with the same period last year, and revenue is down.

For BCal, the position has been aggravated by difficulties on other routes, including the loss of Libyan traffic and difficulties in Saudi Arabia. Last week the airline announced a retrenchment package, including 1,000 voluntary redundancies and a 7 per cent cut in capacity on its routes.

For BCal, the critical day will be Thursday, when the board of airline's parent company, Caledonian Aviation, meets to review the progress of talks with Mr Harry Goodman's International Leisure Group.

Initially, those discussions were aimed at collaboration on the use of aircraft, but were subsequently widened to include the possibility of a merger between the groups.

At the weekend, however, it emerged that relations between the two groups had become severely strained, with Sir Adam Thomson, chairman and founder of BCal, resenting what he and other BCal directors regarded as thinly concealed attempts by Mr Goodman to mount a takeover bid for BCal.

Although yesterday, BCal indicated that officially the two groups were still talking, the view held privately among senior BCal management is that any possibility of a link with International Leisure Group is fading fast, and that BCal may now seek alternative associations to strengthen its position.

One such possibility is a closer link with the Rank Organisation, with which BCal already has relations through the jointly owned Cal-Air charter operation.

Much will depend at Thursday's board meeting on the views of Investors in Industry (3I), which is the biggest single shareholder in the Caledonian Aviation Group, with 42 per cent of the equity.

The state-owned British Airways has suffered just as severely as BCal through the falling away of North Atlantic traffic.

Monsanto finds buyer for polystyrene unit

BY PAUL TAYLOR IN NEW YORK

MONSANTO, the US chemicals group that last year paid $2.8bn for G. D. Searle, the pharmaceuticals manufacturer, plans to sell its US polystyrene commodity plastics business to Polysar, a Canadian petrochemicals company.

Monsanto is in the midst of a restructuring process, including an asset disposals programme designed to help it digest Searle and pay back debt incurred in the acquisition. It said it was negotiating the sale and had signed a letter of intent, although no financial terms of the proposed sale were disclosed.

Under the draft agreement, Polysar would acquire and operate Monsanto's polystyrene manufacturing plants at Decatur, Alabama, and Springfield, Massachusetts, while Monsanto would retain its third US polystyrene plant at Addyston, Ohio, which it would operate exclusively for Polysar.

Together the three plants produce 450m pounds of polystyrene a year and generate about $150m in sales. However, Wall Street analysts say the business does not generate substantial profits. Several praised the planned sale because it would reduce Monsanto's dependence on commodity plastics.

Mr John Tule, general manager of Monsanto's plastics division, said he expected the sale to be completed in the third quarter of this year. He added that the business "no longer has the strategic importance that existed when Monsanto also manufactured the building block raw materials for polystyrene." The St Louis-based group has previously announced plans to sell its Texas City plant, where styrene monomer is manufactured.

Monsanto has been restructuring its plastics operations around higher margin speciality plastics. However, it will retain its polystyrene manufacturing operations in five other countries.

London exchange promises new look at rules

By Barry Riley in London

THE London Stock Exchange has told members that it expects to be able to make further submissions to the Securities and Investments Board (SIB) to secure amendments to the SIB's conduct of business rules before they are finalised.

Meanwhile, it has privately circulated draft conduct-of-business rules to member firms. Among other things, they limit the provision of travel or entertainment for clients, and they clamp down on the controversial practice of "late booking" of bargains through which it has been possible in the past for some fund managers to switch profits to their personel accounts.

Other draft Stock Exchange rules provide for the changeover to a completely different trading structure on October 27, the first day of the so-called "Big Bang," or deregulation in the financial markets. They have been prepared in such a way as to provide for the splitting up of the exchange's markets in equities, gilt-edged and sterling fixed interest securities. Discreet rules allow for the possible separate development of those markets in the future.

The rules were privately circulated to member firms last week, and comments are requcsted by July 13.

The exchange has compiled its conduct-of-business rules in anticipation of the requirements of the Securities and Investments Board, which some time in the first half of next year will gain authority to supervise the Stock Exchange and other self-regulatory organisations.

The Stock Exchange's conduct-of-business rules will come into force on October 27, well ahead of the empowering of the SIB under the new financial services legislation, and it is anticipated that the rules may have to be refined when the SIB's own rule book is finalised.

Meanwhile, the Stock Exchange expects that some of the SIB's provisional requirements, such as the need for client agreement letters, will need to be signed annually to prevent them from becoming invalid, will be relaxed.

Comments are particularly requested from members on its proposals for client agreement letters, and on a technical question relating to the obligations of a market maker to deal with another market maker in the price and size displayed on the Seaq electronic quotations system.

Some market makers wish to have the right to turn down business with other market makers except in the minimum size of bargain of 1,000 shares.

Argument over rules, Page 12

US groups win entry to new UK market

Continued from Page 1

advantage over British institutions which are subject to UK bank capital requirements.

First issues of commercial paper are expected tomorrow after the elapse of the three-week statutory period since the necessary orders changing the Banking Act were laid down in Parliament.

S. G. Warburg said at the weekend it expected to sell paper tomorrow on behalf of PHH International, the UK arm of a US transport company, which was the first company to announce plans to tap the market after the Government go-ahead was given.

Overall, however, growth of the market is expected to be slow initially since many large potential UK borrowers are awaiting further legislative changes that will permit them to issue commercial paper without the publication of a prospectus. This involves amendment to the Companies Act

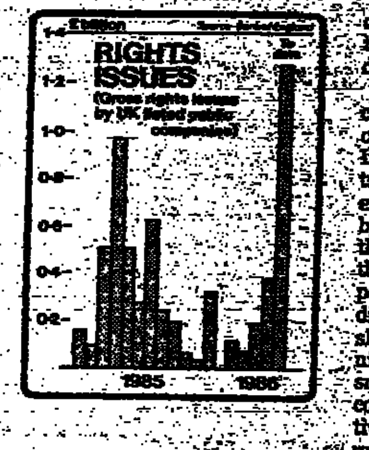
THE LEX COLUMN

Discount issues for the taxman

The general execration that greeted the National Westminster rights issue last week was directed mainly at the bank's lack of solicitude for an equity market that was already in a shaky state. With a deluge of new bank shares already expected through the long-delayed flotation of the TSB, the last thing the City wanted was NatWest's second offering in less than two years. But of course the resentment is not reserved for NatWest, nor is the anxiety confined to the banking sector. The sudden weight of rights in the last month – almost certainly just as much a record as NatWest's individual demand for £714m – suggests that finance directors at large have decided to pay one last call on the equity market before the door slams shut.

The fact that more than £1bn is currently being raised by deeply discounted rights issues reinforces this suspicion. A month ago, Saatchi & Saatchi was still having its seven-for-eight offering underwritten in the orthodox way at a fairly full price. But the market was then only just on the turn, and the last thing that the acquisitive Saatchi can have wanted was to have its share price appear to be demolished by the huge scrip element in a deep-discount issue. Saatchi's balance sheet in any case lacked the reserves to capitalise in this way. For NatWest and Prudential Assurance, on the other hand, a deliberate reduction in the nominal value of their shares – to more conveniently dealable levels for the individual investor – was one stated reason for the deep discount.

This concern for small shareholders, who allegedly find it hard to cope with a share price much in excess of £5, may ring rather hollow when the tax consequences are considered. For the NatWest issue, unlike the Pru's, contains a trap for precisely those individual shareholders who have been carrying an investment of 500 or 1,000 shares and now want simply to maintain it. As the price for doing nothing more than holding on to their original shares, these investors could now face a capital gains tax bill on the forced sale of their rights. And the same would apply to any net fund that elected not to subscribe for its full entitlement. For those who have fresh funds to invest, this is a powerful inducement to take up the whole amount. For those who do



not, it looks as if the NatWest has forced them into paying a tax on share-ownership.

The trap is activated, under the 1979 capital gains tax act, by the assumption that the sale of nil-paid shares constitutes a taxable disposal if the amount raised is more than 5 per cent of the original investment. In a conventional rights issue, this will scarcely ever be the case; it would require an implausibly enormous change in the underlying share price to create sufficient value in the rights. To sell some rights shares in order to subscribe for just enough to maintain one's original investment is in conventional cases treated by the Revenue as a single transaction, with no event of disposal.

In a deep-discount issue, it can be very different, since the capitalisation of reserves will transfer a large part of the original equity into the new shares. Any shareholder in NatWest who sells just enough rights to pick up the balance and thus rescue the holding's initial value will inevitably realise more than 5 per cent of that value en route: the actual figure is more like 15 per cent. This stands to be treated as a taxable disposal. By restricting itself to a mere one-for-five issue, and pitching the discount appropriately, the Pru has managed to protect its shareholders from the taxman. Only 3.8 per cent of the original holding need be sold in order to keep up the investment.

Naturally, the millions of pounds retained in shareholders' equity by avoiding the usual underwriting commission figured in the calculations of both companies; but the Pru – as an investment institution – clearly had more regard than NatWest for the wealth of its shareholders.

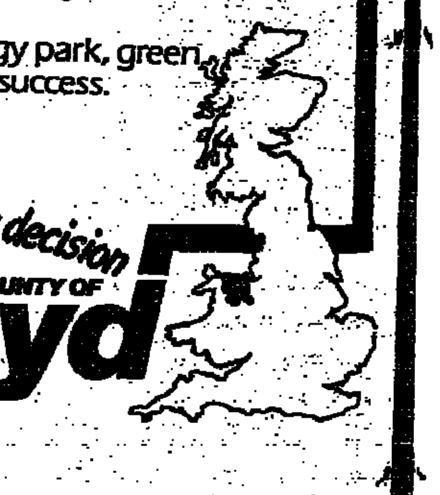
The 5 per cent disposal rule is, of course, an arbitrary interpretation of what counts as a small disposal. It seems more than arbitrary to treat identical transactions differently for tax purposes simply on the basis of such a cut-off point. Given the advantages to shareholders of the company saving on issue expenses, it would be a pity if deep-discount issues returned to the shadows purely because of an inequitable tax treatment. And if new small equity holdings are to be encouraged by the direct fiscal incentive of PEPs, it seems illogical and unfair to continue with a levy on the shares that people own already.

Shared commissions

It is surely a revolutionary idea for a business to share half its profits with its customers. Fundamental Brokers, Mercantile House's inter-dealer broker (IDB) in the giant US Government securities market, can only be doing so as a desperate response to the outbreak of commission war. The halving of commissions since last autumn was already hitting profits without generating enough extra turnover to make them up. So the creation by 31 primary dealers of their own house, by putting $60m into the small Liberty brokerage firm, proved the final straw.

Fundamental's answer has a certain desperate logic. Fundamental is giving the primary dealers an incentive by rebating half the profits it makes to the primary dealers on the basis of volume done with Fundamental, in return for a nominal sum. That is not quite the same thing as cutting commissions further, and Fundamental is not selling a stake in its assets. Fundamental's competitors are livid. What Mercantile's shareholders think of the arrangement is another matter, although the deal is being linked to savage cost cutting – what customers gain in rebates they will lose in lunches.

Those, including Mercantile, which plan to operate as IDBs in the new gilt-edged market must view the affair with alarm. At present there are plans for six firms, almost as many as there are in New York where the market is many times the size.



World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	23	73	Dubrovnik	S	25	77	Malta	S	24	75	Rhodes	S	22	72
Algiers	S	24	75	Edinburgh	C	13	55	Manchester	C	13	55	Rio de J'o	C	32	90
Amsterdam	S	16	61	Faro	F	22	72	Manila	C	33	91	Rome	S	26	79
Athens	F	26	79	Florence	–	—	—	Melbourne	C	16	61	Salzburg	F	25	77
Bahrain	S	33	91	Frankfurt	R	22	72	Mexico City	–	—	—	San Francisco	C	28	82
Bangkok	S	34	93	Funchal	C	20	68	Miami	C	26	79	Seoul	F	22	72
Barcelona	S	20	68	Geneva	S	25	77	Milan	S	25	77	Singapore	C	31	88
Beirut	S	26	79	Gibraltar	S	22	72	Montreal	–	—	—	Stockholm	S	17	63
Belfast	C	13	55	Glasgow	C	11	52	Moscow	C	19	66	Strasbourg	F	23	73
Belgrade	C	22	72	Guernsey	S	13	55	Munich	S	25	77	Sydney	S	24	75
Berlin	F	23	73	Helsinki	S	16	61	Nairobi	F	23	73	Taipei	C	31	88
Biarritz	F	20	68	H. Kong	C	26	79	Naples	S	30	86	Tangier	F	24	75
Bombay	F	32	90	Innsbruck	C	24	75	Nassau	S	27	81	Tel Aviv	S	25	77
Bordeaux	C	19	66	Inverness	F	14	57	New Delhi	S	35	95	Tenerife	S	25	77
Brussels	S	18	64	Islamabad	C	35	95	New York	C	29	84	Tokyo	S	22	72
Budapest	S	22	72	Istanbul	F	19	66	Nice	S	25	77	Toronto	S	25	77
B. Aires	R	17	63	Jakarta	R	33	91	Nicosia	S	23	73	Tunis	S	23	73
Cairo	S	27	81	Jersey	F	15	59	Oporto	S	18	64	Valencia	F	24	75
Cape Town	S	20	68	Jo'burg	S	21	70	Oslo	C	11	52	Venice	S	25	77
Caracas	C	29	84	Lima	S	23	73	Paris	F	18	64	Vienna	F	23	73
Casablanca	F	21	70	Lisbon	F	23	73	Peking	C	28	82	Warsaw	F	21	70
Chicago	R	21	70	London	C	15	59	Prague	F	23	73	Washington	–	—	—
Cologne	–	—	—	Los Angeles	S	31	88	Reykjavik	S	10	50	Zurich	F	21	70
Copenhagen	F	10	50	Luxembourg	C	19	66								
Corfu	S	26	79	Madrid	F	25	77								
Dallas	–	—	—	Majorca	S	32	90								
Dublin	S	14	57	Malaga	F	20	68								

Readings at mid-day yesterday:
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Dutch poll faces fallout

Continued from Page 1

tian Democrats have quickly backpedalled since Chernobyl. The Labour Party adamantly opposes nuclear power and promises not only to halt the construction of the two new generators but also to close the existing two.

The real stumblingblock to a centre-left coalition remains US cruise missiles, which The Hague has promised to site by the end of 1988. The Socialists vehemently refuse to accept the missiles and have threatened to renege on the US-Dutch treaty providing for deployment.

But some accord on that is possible. Mr Den Uyl could bypass the party ideologues in Amsterdam and paper over the dispute until 1988 without losing too much face. The virulent and pervasive opposition to nuclear missiles of the past has waned visibly in recent years and an anti-missile demonstration on Saturday drew only a third of the expected 20,000 protesters.

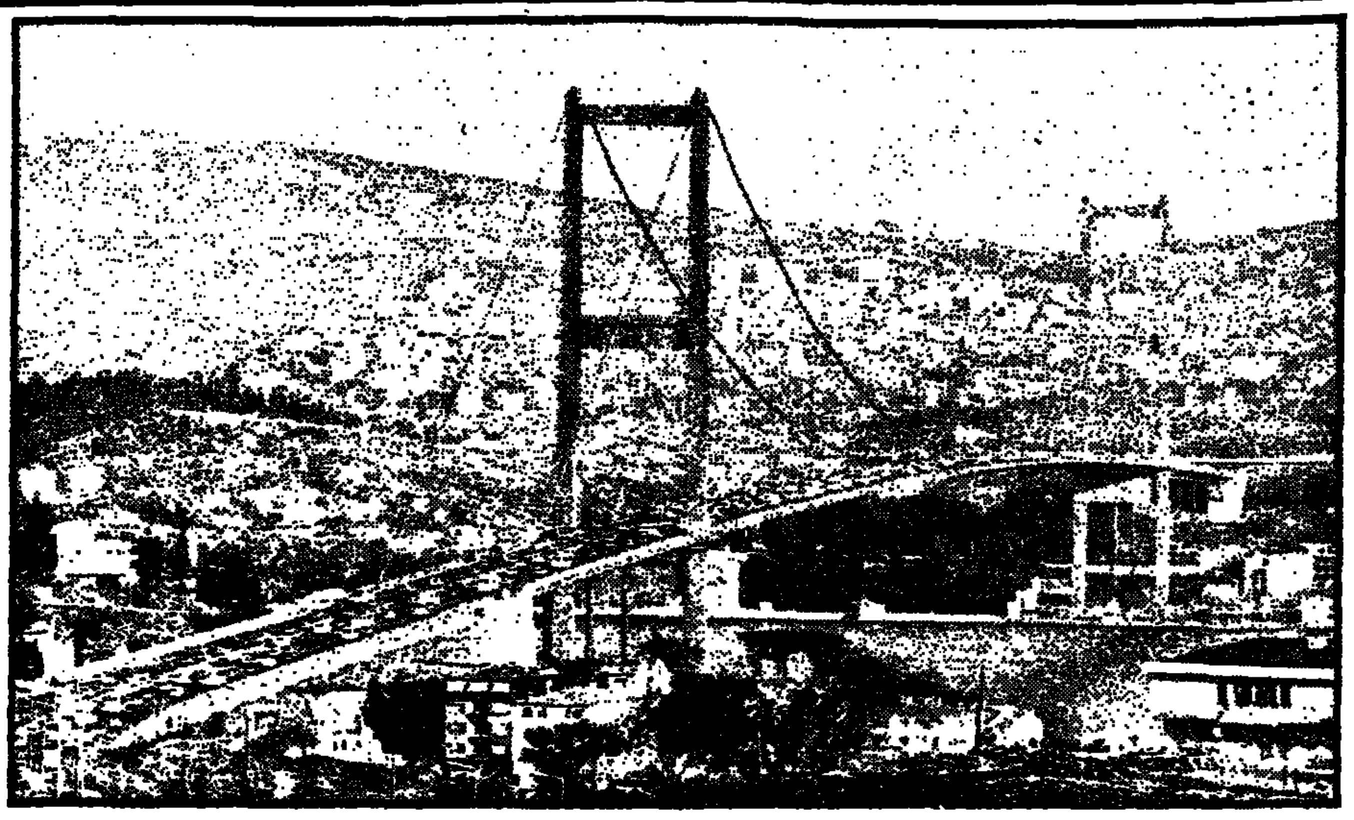
If the Christian Democrats and Socialists fail to bridge their differences, then the current coalition partners would search for a third party to give them a majority. The most likely candidate is the Democrats '66.

Another, less likely scenario is a coalition with the small, right-wing parties. Those orthodox Christian parties, however, have attached too many strings to their participation to suit the powerful Christian Democrats.

FINANCIAL TIMES SURVEY

TURKEY

Restructuring of industry within a stable political framework is proceeding under Prime Minister Turgut Ozal, and the crisis of the early 1980s is over. Now priorities are directed on maintaining momentum in the decade ahead while continuing the return to democracy.



The Bosporus bridge, gateway between Europe and Asia

Alarm bells stop ringing

By David Barchard

EVERY YEAR has been a testing one in Turkey during the last decade. In the later 1970s the economy was struggling to survive the consequences of gross mismanagement. In the 1980s the emphasis shifted to efforts at reconstruction, the restructuring of industry and the financial system and opening up of the economy to world markets.

This is a testing year and so, too, will its immediate successors be. The kind of turn around which Mr Ozal has been attempting since 1980 probably requires at least a decade to consolidate itself.

But the alarm bells have stopped ringing and business has a more favourable environment in which to operate than for many years. Law and order prevails in the major cities, though opposition political activity is growing steadily freer and more visible. Times are much more normal, economically and politically, than they have been in Turkey in a long while.

This is not to say that Mr Ozal has yet completed the agenda of economic reforms he embarked on in 1980—or that all Turks yet feel politically satisfied with the present system.

On the economic front, inflation remains too high (around 48 per cent in 1985) and, as a result, investment is sluggish. Mr Ozal has been able to pull Turkey's current account deficit down to about $1bn, but he was not able to attract more than a modest $99m or so in foreign investment last year.

The country's financial system remains frail, with some institutions (particularly in corporate finance and inter-bank lending) either non-existent or embryonic, while others such as state banks for instance are struggling to cope with inherited debts and bad management.

Turkey's industrialists have shown an impressive willingness to learn how to export since 1980. But they do not yet enjoy the back-up that their competitors possess in many other countries, while inefficient or bad managers are still protected from the cost of their mistakes.

Politically, Mr Ozal remains in the ascendant, even though he faces increasingly noisy challenges, both from the social democrats and from his former master, Mr Süleyman Demirel.

The opposition claim that Turkey enjoys much less political freedom than other European countries do. Mr Demirel has been campaigning this spring, from end to end of the country, using the populist slogan, "Turkey without prohibitions." He would like to see the prohibition on his re-entry (and that of other senior former politicians, including ex-prime minister Mr Bulent Ecevit) lifted. Mr Ozal has indicated that he will not go along with this. It is not simply that he would be uncorking two genies who might turn into formidable political foes. President Kenan Evren, the architect of the 1982 Constitution, would certainly veto such a proposal.

Liberalisation at home, however, has been sufficient to melt the ice between Turkey and the European Community. Major strides towards normalisation were taken this spring, with the Council of Europe for the first time for several years giving Turkey a clean bill of health on human rights issues. Defendants in most of the more controversial trials, such as that of the Turkish Peace Association, have now been released, though hearings continue.

The emphasis is now on reactivating Turkey's diplomatic and political links with Europe. The once-sullen relationship with the French has brightened up since Mr Chirac took office. Though a bilateral issue—that of alleged Turkish discrimination against its ethnic Greek population—stands in the way, it is now assumed that the Turkish-European Community Councils will meet later this year, and that $530m of Community aid, blocked since 1981, will finally be disbursed, either in 1986 or during the first half of next year.

As a result, the isolationist mood which dominated Turkish politics and press after 1980 has begun to lift, though some grievances remain — notably the visa requirements imposed by many European countries for Turkish travellers.

A cynic might say the shift to Europe partly reflects the fact that relations with Turkey's Middle Eastern neighbours are going through something of a trough, while Turkish-US relations are strained by the failure to reach accord on a new Defence and Economic Co-operation Agreement.

For most of the country's westernised middle class, this is clearly not true. Convergence with Europe — and membership of the European Community — is seen as the only way forward by left-wing intellectuals and Istanbul businessmen alike. The argument that membership will immunise Turkey against further military interventions is even to be heard, delicately phrased, in some quarters.

The pro-Europeans, who want to see their country look like the advanced industrial democracies of Western Europe, are casting nervous glances over their shoulders these days at the growing visibility of religion in the country's life.

There is a major religious faction inside the ruling Motherland Party. Mosque-building, even in the universities, is on the increase. Islamic prosyletizing is spreading to urban middle-class areas. Religious dress, particularly for women, has become much more common than it used to be.

Most Turks do not want to see the conflicts of the first half of this century, between fundamentalists and secularists, revived. Yet it is not clear how far the new Islamic upsurge will go — or where it would like to lead Turkey. It does seem, to say the least, that a more Islamic Turkey would probably be less pro-European.

"Turkey can expect the European Community to accept it, if it is a secular state, the majority of whose people happen to be Muslims," says the leader of the Social Democratic opposition, Professor Aydin Güven Gürkan. "But it cannot expect a 're-Islamised' Turkey to be acceptable to the EEC.

A different concern relates to the long-term social effects of Mr Ozal's policies, accused by the Prime Minister's critics of spreading income inequality. Unemployment and poverty receive relatively slight statistical investigation in Turkey. It is clear, however, that for those outside the protective extended family network, times are harsh. To help the worst off, Mr Ozal and his advisers are trying to create a special poverty fund, and the Government has struggled, through such measures as graduated tax rebates tilted in favour of the worst-off, to ease the lot of low-income groups.

"It is difficult to criticise Mr Ozal too far," says an Ankara journalist, who is publicly identified with a different party. "There is only a limit to what can be done with Turkey's resources, and the fact of the matter is that things are obviously much better than they were five years ago. You can't honestly argue that, in terms of prosperity, most people are much worse off, even if civil servants are being squeezed. These people tend to forget that they have never had things easy in the last 30 years under any government."

Because of this, opposition to Mr Ozal focuses either on the civil liberties issues, such as torture or union rights, or on the electorate's desire for swift improvements in its living standards.

Sometime this year, Mr Ozal and the Motherland Party will test their popularity with the voters in by-elections at a still unannounced date for empty seats in parliament.

They will set the perspective for approximately two years, until the 1988 general elections. Though businessmen and politicians are already turning their thoughts to what will happen after that, Mr Ozal has the prospect of two more years in the saddle, running a country which is still relishing the unfamiliar taste of stability.

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Politics

Mr Ozal stays firmly in the saddle

SIX TIMES Turkey's prime minister in just over two decades, Mr Süleyman Demirel sits in the ground floor study of his Ankara home and headquarters surrounded by pictures of white horses, the emblem of of the Justice Party which he led until it was shut down by the military in 1981.

Five years later the Turkish centre-right is still fragmented. Apart from long-standing competition from rightwing nationalist and ultra-religious parties, Mr Demirel is competing with the Prime Minister, Mr Turgut Ozal's Motherland Party, and a new grouping, the Free Democrat Party led by the former President of the Turkish Union of Chambers of Commerce and Industry, Mr Mehmet Yazar.

The left-of-centre is similarly split. Though the Populist Party (which was allowed to stand in the 1983 General Elections and so won seats in Parliament) and the Social-Democracy Party (which was not) have combined forces, they face competition from the former prime minister, Mr Bülent Ecevit, who has set up a Democratic Leftist party.

Mr Ecevit however has retained virtually none of his followers from the pre-coup period and the new Social-democracy Populist Party seems to have the backing of the large majority of the followers of the now dissolved Republican Peoples Party.

Not so on the right. Mr Demirel, if the opinion polls can be believed, has the support of about 20 per cent of the voters, while the ruling Motherland Party has about 30 per cent.

Mr Demirel has two major handicaps however. He has been allowed to make public statements again, but he—and other leaders, such as Mr Ecevit—are barred from running for office until 1992, a prohibition which they regard as manifestly undemocratic. As a result he cannot be explicitly identified with the True Path Party, which has tried to take the place of the old Justice Party.

Secondly, because it was not allowed to enter the 1983 elections and so did not win any seats in parliament, the True Path Party has virtually no recognition by the broadcasting media.

Not surprising perhaps therefore that Mr Demirel denounces the West—and in particular Western ambassadors in Ankara—for their alleged double standards on democracy. He has instead staged a series of rallies intended to show that he has the support of the majority of Turks in the countryside.

A rally to the town of Bursa in western Turkey, in March, turned into a massive triumph for Mr Demirel which villagers flocking in their thousands to welcome him.

"It is hard to be sure, but I think Mr Demirel's Bursa visit may have been a historical turning point," says one veteran Turkish journalist.

In late April, the Prime Minister countered by staging his own very successful rally in Mr Demirel's home town of Isparta.

The two men have known each other since the 1960s.

"I have worked with him too closely to be able to comment on him," says Mr Demirel about Mr Ozal. Both have taken care not to attack each other directly.

According to some observers, there are good political reasons for this gentlemanly restraint. Mr Demirel may some day need Mr Ozal's backing if he is to regain his political rights before 1992. Mr Ozal may have to turn to Mr Demirel for support in forming a government if he does not win an outright majority in the 1988 general elections.

At the moment, the advantages seem to lie with the ruling party, despite the economic hardship which its policies are alleged to have brought to fixed- and low-income groups.

The Motherland Party, with its close links with trading groups, has shown itself capable of an almost American professionalism while on campaign. It faces no real opposition in parliament. Fears that the party might break up into factions have also proved groundless even though the different currents within it can be easily distinguished.

But some of the Motherland Party's MPs are worried. They fear that the party will not be able to win an outright majority in 1988 because it has needlessly allied key groups among the voters such as farmers (to whom Mr Demirel appeals) and organised labour, unnecessarily rebuffed—as they see it—by Mr Ozal.

To counteract the risk of a three-way (or four-way) split in the 1988 elections. The Government changed the election law in April to give a major advantage to whichever party wins most votes and to make it very much harder for the third and subsequent parties to get substantial representation in Parliament. Not everyone is sure that this was a wise move. If the Social Democrats stay ahead of the Motherland Party, Mr Ozal may turn out to have delivered them an outright majority on a plate.

If there is no party with an overall majority in 1988, then on past form Turkey might be in for a period of no-holds-barred fighting between the parties and government by unstable coalitions.

Events, however, are not quite as they were during the 1970s. Then, Mr Demirel refused to enter a grand coalition with the left of centre, arguing that this was against the national will. Now he is dangling the possibility that he might prefer not to combine with Mr Ozal at all but to go into a coalition with the Social Democrats to restore full constitutional democracy in Turkey by repealing most of the provisions of the 1982 Constitution.

The 1982 Constitution — designed by the military to guarantee law and order—has emerged in fact as the main political divide on the right. Mr Ozal is content to work within it. So, too, is Mr Mehmet Yazar whose bid for office is thought by some of Mr Demirel's followers to have the discreet backing of the presidential palace.

Mr Demirel's critics on the left say he will almost certainly drop his emphasis on human rights and democratic freedom if he ever has his own rights restored. They believe that he is basically bluffing when he appears to hint at a coalition between the centre-right and centre-left after 1988 against Mr Ozal, but others dispute this.

"A coalition between the followers of the Justice party and the former Republican Peoples Party," says one social democrat "is a historical opportunity to heal the wounds of the 1970s and reverse the undemocratic trends in Turkish life."

Attention focuses on such remote concerns because Mr Ozal is well in the saddle until then with nothing to fear from parliament or the opposition. Middle class Turks may find some aspects of Mr Ozal's rule—the growing emphasis on religion and increased income inequality — disagreeable. But the combination of moderate tone and stability is very welcome after the tumultous years of the 1970s.

David Barchard

Metmet Kececiler, looking more like a prosperous businessman than an Islamic politician

Islam's doughty champion

Profile: Metmet Kececiler, leader of the Motherland Party's religious wing

RECEIVED wisdom has it that Turkey's ruling Motherland Party is made up of four distinct political tendencies grouped together under Mr Ozal's leadership.

The acknowledged head of the party's religious wing is its vice-president, Mr Metmet Kececiler (42). Mr Kececiler is neither in the cabinet nor in parliament, but he wields more influence than many ministers and his critics and rivals in the party have generally not been reticent about naming him as the source of their difficulties.

Relaxed and genial, Mr Kececiler looks more like a prosperous young businessman than most people's idea of an Islamic politician. He is in fact a civil servant by background. In the Ministry of the Interior he was "kaymakam" (a kind of district commissioner) in several provinces before studying public administration at the Sorbonne in the mid-1970s and then going into politics in 1977 when he was elected mayor of his home town of Konya for the ultra-religious National Salvation Party.

His background in the Ministry of the Interior probably stands him in good stead today. "He is a man whose abilities and integrity are impossible not to respect, however much you differ from his personal opinions," says one senior Interior Ministry bureaucrat.

In a country where Islamic fundamentalism has traditionally been seen as something close to mutiny against the values of the Republic, Mr Kececiler makes it plain that he is on the side of law and order. He reports with satisfaction that on the eve of the military coup in 1980, when the religious right (including his then party bosses) staged a controversial rally in Konya, he co-operated fully with the security forces—and no kind of legal proceedings were started against him.

He is equally proud of his record as an administrator in Konya, using the town-planning skills he acquired in Europe to develop Turkey's largest satellite town.

In 1983, he pressed Turgut Ozal, then out of office, to set up his own political party and run for office. He has been rewarded with the control of the Motherland Party's constituency organisation, apparently having been vetoed from parliament though he does not say so.

Mr Kececiler says that the Motherland Party is very different from the pre-1980 political parties. It has learned from experience to be tolerant and is not dominated by nationalist or religious dogmas. It is pro-private enterprise, but also in favour of social justice. He supports pet projects such as the mass housing fund and a proposed new fund for the poor which he hopes will aid the badly-off in Turkish society.

His critics see him as a smooth manipulator who selected one target after another in building up the influence of the MP's Islamic wing, pushing through potentially unpopular legislation on such matters as beer sales and indecent publications.

"Some individuals are more religious than others," says Mr Kececiler unflusteredly when challenged about his religious affiliations "It shouldn't affect our roles in the party. I have had my principles since my youth and I am a deeply conservative person, but that doesn't affect my desire for a modern Turkey."

As the identifiable leader of the MP's religious wing, he will have to work hard to overcome the suspicion of Turkey's westernised middle class if he is to climb to the political heights for which his evident professionalism qualifies him.

For the moment he seems content in his role as party boss of the government party. He is undecided about whether to stand in the by-elections. "I am getting appeals from my constituents in Konya that I should stand there and nowhere else," he says, "so I may have to wait."

David Barchard

Social Democratic Opposition

Harmony needed on the wings

THIS IS proving to be a particularly testing time for Professor Aydin Guven Gurkan, leader of the main Opposition party, as setback follows success.

In late April, he went to Strasbourg to address the Socialist group of the European Parliament, seeking acceptance of his party's claim to the social democratic mantle in Turkey.

Late this month, however, he will probably hand over the chairmanship of the Social-democracy Populist Party to Professor Erdal Inonu.

The fact that Prof Inonu is, somewhat reluctantly, taking on the chairmanship indicates that the two-party merger, which created the SPP last year, has its problems. Continuing friction between Prof Gurkan's Parliamentary Populist Party and Prof Inonu's non-parliamentary Social Democracy Party (SODEP) may well hamper the new party's chances in the 1988 general election.

On present opinion polls, the Social Democrats would form the next government. They attract 42 per cent of those questioned, against 30 per cent for Prime Minister Turgut Ozal's Motherland Party which, at the last election, took 45 per cent of the popular vote.

Many workers resent the erosion of their standard of living under Mr Ozal's economic policies and the curbs on trade unions. They are also concerned about the continuing high level of inflation.

The new party can expect these voters to be drawn naturally to the strong social democrat tradition in Turkey. But it cannot yet take the territory for granted. Mr Bulent Ecevit, who headed the previous left-wing government of 1978-1979, but who is banned from running for office until 1992, has staked out his claim with the Democratic Left Party.

Thus the Gurkan-Inonu Party must convince a wide section of the electorate that it offers a credible alternative to Mr Ozal's policies.

Both wings are in close agreement on policy principles. They advocate a traditional form of European social democracy based on government by social contract. They are for the European Community, NATO, a secular society and improved human rights.

Prof Gurkan says the Social Democrats will not overturn any of the present Government's privatisations, though they will apply more rigorous social and economic criteria to any subsequent sell-offs.

The party, however, is heavily criticised, from within and without, for failing so far to develop these concepts into detailed policies.

"We are totally unprepared for power," said one senior party activist from Professor Inonu's wing. "We lack economic policies and sufficient support of experts and bureaucrats. The chances of proselytising successfully (before the 1988 election) are very low because we've left it too late."

The election is nonetheless two years away, and greater harmony between the party's wings would allow members to get on with their electoral problems.

The acrimony stems mainly from the conflicting styles and origins of the two factions. Professor Inonu's SODEP, which was strong in the cities, was ineligible to run in the 1983 election, because it failed to get a quorum of military-approved founder members.

In contrast, the military encouraged the formation of the Populist Party, expecting it to form a loyal opposition in the new parliament. Strong on support in rural areas, many of its deputies are, however, short on political experience.

Observers say there was initially considerable goodwill between the parties, but SODEP members became wary of Professor Gurkan during the merger negotiations. They came to distrust his manoeuvrings for power which resulted, they say, in Professor Gurkan overplaying his hand.

The merger protocol called for Prof Gurkan to hand over leadership of the party at its first congress in May. But the manoeuvrings continued, with Prof Gurkan angling unsuccessfully for the creation of the post of elected vice-chairman to reinforce the principle of dual leadership.

The Populist Party suffered the defection of 20 of its 117 parliamentary deputies, partly because of these tensions and partly because Mr Ozal scared them away.

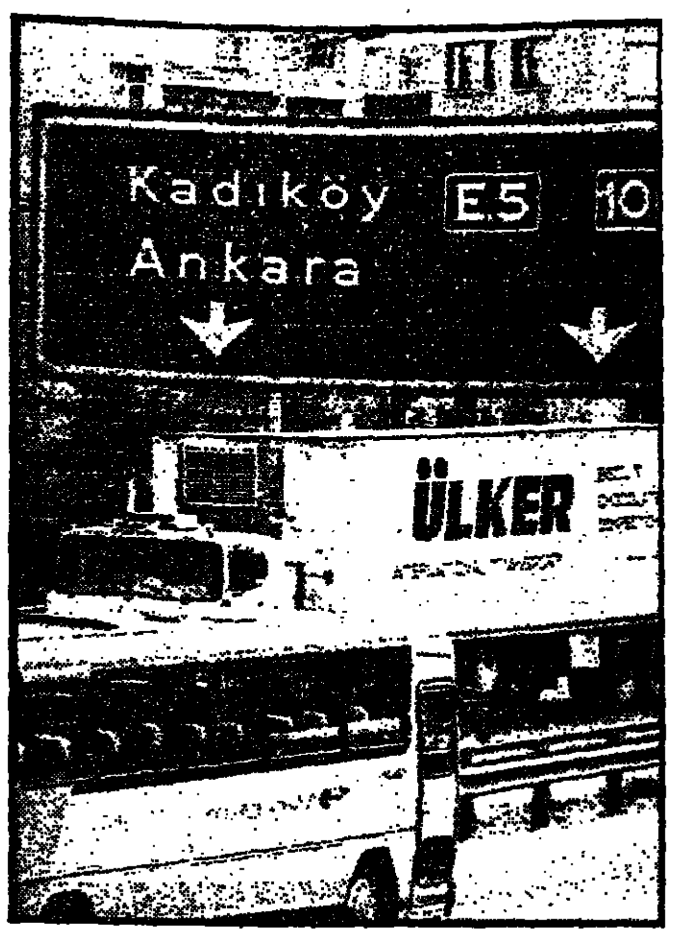
With three of the defectors returned to the fold, Prof Gurkan said: "We are now more than stable."

Continuing unease in the SODEP wing, however, has ensured that a somewhat reluctant Prof Inonu has maintained an active leadership. An atomic physicist by training, he carries great personal authority as the son of the right-hand man of—and successor to—Ataturk, the founder of modern Turkey.

Associates believe he might have a more open mind on economic matters than Prof Gurkan, who is a professor of education. Yet doubts hang over Prof Inonu's ability to develop into a successful politician.

His faction, however, has far stronger grass-roots support than Prof Gurkan's. This disparity will be put to the test in by-elections which could be held as early as October. It is expected that the merged party could win roughly half the ten or so seats contested, but that the new deputies will be identified with the SODEP wing.

Rod Oram



On the road at Istanbul to Europe in one direction and into Turkey the other way

Foreign Policy

A bulwark on NATO's flank

THERE IS hardly a country in the world with a more complicated foreign policy. Turkey, which borders in the west on Greece and Bulgaria, and in the east on the Soviet Union, Iran, Iraq and Syria, not surprisingly sees itself as "a bridge between East and West."

That, in the eyes of most Turks, should be seen as an advantage. It certainly helps to deal with the national psychological problem of deciding whether the country is European or whether, in spite of all the efforts of its modern era founder and father-figure Kemal Ataturk, it is really part of the Islamic world. If you are a bridge, you can belong to both worlds at one and the same time.

The neat formula, which is employed even by academics, is more attractive on paper than it is in practice. Try as nations may, they cannot be all things to all men for all of the time, and the bridge periodically becomes a see-saw on which Turkey slides first in one direction and then the other.

It is only fair to say that amidst all the flux and flexibility, there are some constants. Both its European and Islamic traditions and its traditional fear of Russian communist expansionism, have helped to tie Turkey firmly to the NATO alliance in the post World War II period. With more than half a million men under arms, Turkey boasts the Alliance's second largest army and is seen by all its members as an indispensable bulwark against the Soviet Union on NATO's south-eastern flank.

Turkey's key role in the Alliance inevitably involves it in a close relationship with the US which, while it has its ups and downs, is considered by both sides to be a permanent fixture.

Since 1947, Washington has pumped more than $7bn in military aid and more than $4bn in economic aid into Turkey, an investment that is not easily squandered. The two sides may quarrel from time to time—they are currently haggling over the terms of a new defence and economic co-operation agreement (DECA), to replace the one which ran out in 1985—but that is considered to be a normal feature of the relationship.

The US Congress permitting, it can be assumed that a reasonable compromise will be reached some time this year between the somewhat excessive sum of $1.2bn demanded by the Turks and the $739m currently provided by Washington.

Under Mr Turgut Ozal's government, Turkey has also become more insistent that its future resides in full membership of the European Community, and has recently adopted a rather self-righteous attitude in support of this policy (the problem is examined more fully in another article on this page).

Yet misconceptions about the political nature of the European Community, which is often regarded in Turkey as just an economic extension of the Atlantic Alliance, continue to persist in Ankara.

Few people have made a genuine study of how membership is likely to affect Turkey's prized trading and political relations with its Islamic neighbours. Indeed, there is a general assumption that Turkey can reap the economic advantages of EEC membership without paying any kind of political or economic price in its relationships with its major trading partners in the East, such as Iran and Iraq.

Fundamental political choices, except in so far as they regard Turkey's adhesion to NATO, are not an outstanding feature of Turkish foreign policy in the post-war era.

A few examples suffice to show how adept Turkey has become in walking the tightrope of international diplomacy and economic relations. Turkey is a member of the Islamic Conference, but has never signed or ratified its charter because of the Turkish *secular constitution*.

Turkey supports the Palestinian Arab cause, but has always refused to cut off its relations with Israel. Turkey has declined to take sides in the war between Iran and Iraq, *which take 14 and 12 per cent* of its total exports respectively. In spite of its anti-American and anti-Nato stance, Libya has always been considered a special friend of Turkey's, for historical as well as economic reasons.

The recent US military raid on Libya and Washington's condemnation of Col Gadaffi, the Libyan leader, as the fountainhead of international terrorism, has once again put the "bridge" concept of Turkish foreign policy under pressure.

The Turkish government went through the usual diplomatic contortions, aimed at not upsetting either side to much, while appearing to support both their positions. An official statement criticised the US for violating international law, while studiously avoiding the term "attack." At the same time, it condemned terrorism and called for international co-operation to combat it. The Americans, *though clearly not* enchanted with Ankara's response, were prepared to accept it without too much fuss; but the Libyans were enraged by the Turks' failure to back them to the hilt.

The credibility of Ankara's position was stretched to breaking point when two employees of the Libyan People's Bureau in Ankara were charged with planning a bomb attack on a US officers' club, while an official statement completely cleared Mr Abdul Malik, the head of the People's Bureau, of any involvement in the affair.

Turkey's even-handed approach to the Iran-Iraq conflict is also coming under increasing pressure, with both Iran and Iraq, backed by Saudi diplomacy, calling increasingly for a clear-cut commitment by Turkey to their respective causes.

Last, but not least, no progress whatsoever has been made towards a solution of the Cyprus problem on the basis the latest proposals of Mr Perez de Cuellar, the UN Secretary-General, nor towards a settlement of the numerous disputes between Turkey and Greece in the Aegean.

Turkey has adamantly refused to withdraw its troops from the northern part of the island until after the implementation of a proposed federal system, while the Greek Cypriots and Greece want them withdrawn at a much earlier stage.

The feeling appears to be growing in Ankara that, failing an early Cyprus settlement, a continuation of the present de facto partition of the island is quite acceptable. Indeed, the Government is stepping up its campaign to win international diplomatic recognition for the self-styled Turkish Republic of Northern Cyprus. What has not been clarified in Ankara is how such a situation can be reconciled with a partnership between Greece and Turkey inside the EEC.

Robert Mauthner

Relations with the EEC

No quick entry, but the log jam is broken

TURKEY'S RELATIONS with the European Community, the *nirvana for all those Turks who* believe, with Kemal Ataturk, the founder of their Republic, that the country's future must reside in closer ties with the West, have taken a distinct turn for the better recently.

Though many obstacles re*main to be overcome before the* present Government's goal of full membership of the Community is realised, the complete logjam in relations which existed only a few months ago, appears to have been broken.

The reasons for the thaw are entirely political. The *freeze*—in particular the suspension of some Ecu 647m of EEC financial aid under Ankara's 1963 Association Agreement with the Community—took place as the direct result of the suppression of democratic liberties in *Turkey following the 1980* military coup.

While many Turkish officials argue that the Community's continued reluctance to reactivate the Association agreement and to contemplate full Turkish membership has more *to do with protectionist* tendencies in the EEC than political principles, that view is hotly disputed in Brussels and other Community capitals.

The European Community was never intended to be only a customs and economic union, *it is emphasised* in Brussels. The idea was always to create a community of nations with similar democratic systems and principles and a common view of individual liberties, which would be able to play a real political role in the world.

Greece, Spain and Portugal, so the argument goes, were finally admitted to the Community only after they had restored democracy. Though the chaotic *conditions which* persuaded the military to assume power in Turkey in 1980 have *certainly* made that *move more* understandable than most military coups in the eyes of West Europeans, the perpetuation of a system which gives the military the final say is still considered to be incompatible with full membership of the EEC.

Indeed, it is as the result of the recognition by Mr Turgut Ozal, the Prime Minister, and his closest advisers of that basic fact and the political terms which have to be met by Turkey if it is to achieve greater integration with Europe, that the thaw in Turkish-EEC relations has taken place.

The breakthrough came at the end of 1985, when five European countries and Turkey reached an out-of-court settlement of a suit brought against the Turks before the European Commission of *Human* Rights. Under the settlement, which implicitly recognised the progress which had been made on the human rights front by the Ozal government, Turkey agreed to lift martial law throughout the country within 18 months, and permit periodic visits by European representatives to monitor human-rights matters.

That was a psychological turning point, which also reflected a growing realisation in Community member countries that, whatever progress *still remained to be made* before Turkey could claim that full democracy had been *restored, the Ozal government* had set the country firmly on the right road.

The decision by the five European countries, including three of Turkey's hitherto strongest critics in the Community (the Netherlands, Den*mark and France) to drop* their human-rights case, paved the way for other welcome *developments on the European* front, as far as Turkey was concerned.

A *decision* in principle has been taken by the Community's Council of Ministers to convene the dormant EEC-Turkey Association Council later this year, to discuss all the many problems which have piled up since its last meeting several years ago.

The decision was made possible by the long-delayed agreement of Denmark to pay its share of the 47m Ecus which was due to have been paid to Turkey in 1973, at the time of the first enlargement of the Community by the entry of Britain, Denmark and Ireland.

Secondly, agreements were reached last December and last month on the sensitive issue of Turkish textile exports to the EEC, on which the *Community has imposed* quantitative restrictions.

Under the second of these arrangements, EEC quotas for imports of some categories of clothing, such as shirts, tee-shirts, trousers and underwear, will be increased annually by 3 *to 8.5 per* cent between 1986 and 1988.

The agreement is considered of great importance for Turkey, nearly 25 per cent of whose export earnings are provided by textiles and which has become the largest single *exporter of* textiles *to* the EEC, though Ankara's ultimate aim is, of course, to *obtain completely free entry* into the Community.

Finally, the Turks have convinced themselves that the recent decision by the 21-nation Council of Europe, to give Ankara the presidency of the organisation for the current *year, in recognition of the pro*gress made towards the restoration of democracy, has more than symbolic significance. Though it has nothing to do with the EEC, Turkey has always looked upon the membership of the Council of Europe as establishing its European identity and qualifications—a kind of ante-chamber giving access to the throne of the European Community.

Mr Ozal's government has made it clear that it is full membership which Turkey is after and nothing less. The arguments deployed by Ankara in favour of such a development range from the political to the economic.

Last year, nearly 40 per cent of Turkey's total exports went to the EEC and some 31 per cent of its total imports came from the Community. Though the Middle Eastern countries as *a group are an equally impor*tant trading partner, falling oil revenues and the continuation of the Iran/Iraq war make them a more doubtful long-term prospect than the EEC.

Last but not least, the Turks believe that their recent industrial *development* will enable them to compete on an equal footing with Western European *industry in a growing number* of sectors.

A recent study undertaken by IKV (the Turkish Foundation for Economic Development) covering 53 industrial sectors found that only 15 of these sectors would be unable to com*pete within* the Community at present.

The "weak" sectors make up 22 per cent of the country's industrial production and are mainly in the processed foodstuffs and chemical fields. The "strong" sectors include textiles of all kinds, in which Turkey is among the world leaders, some foodstuffs, shoes, tyres, *wood, paper, glass, cement*, steel, shipbuilding and oil refining.

Most EEC countries, however, do not want to go nearly as *fast as the Turks*. They feel that it will take some years to absorb the Spanish and Portuguese *economies into the* Community, and that that is enough for the moment.

The Greeks, in constant conflict with Turkey over Cyprus and Aegean territorial issues, are likely to prove intractable negotiating partners. *And no member country, least* of all West Germany, which is already host to more than 1m Turkish "Gastarbeiter," wants to accept the free movement of Turkish workers which would go with Turkey's entry into the Community. Indeed, Bonn has *already made it clear that it* will not carry out its present obligation under the Ankara agreement to introduce freedom of movement in December this year.

The timing for a Turkish membership application — as *distinct from* a revival of the Association agreement — is therefore an extremely sensitive matter. Mr Ozal has indicated that he will table the application within the next year or two. At the same time, he and his officials have indicated *privately that Turkey would not* expect to join the Community for at least 15 years, made up of about eight years of negotiations or longer, and a seven-year transitional period.

Robert Mauthner

Economy

Relief sought through cheaper oil

MR TURGUT OZAL, the Turkish Prime Minister, and architect of his country's progressive transformation into a modern, free market and export-oriented economy, is likely to reap an unexpected reward for his efforts this year.

The price of oil which, after 1973, placed enormous strains on what was still, at the time, a backward, inward-looking economy and led to a major balance of payments crisis in 1977-78, could a decade later come to the aid of Turkey.

That, at least, is the view of members of the government who believe that the benefits which will accrue to Turkey from lower import prices for crude will outweigh the loss of export earnings from Turkey's important Middle East Opec markets.

The official calculation is that, on the basis of $20 a barrel, the savings on the oil import bill would amount to about $1m in 1986, as much as one-third of last year's net foreign exchange cost of Turkey's oil imports.

Such a saving would make a substantial impact on the trade deficit which, though exports grew twice as fast as imports, still amounted to an estimated $3bn last year, while the current account was $1bn in the red. It would also make the government's task of servicing the country's $20bn of foreign debt during the remaining three "hump" years considerably easier—$3bn is due in interest and principal repayments in 1986 and 1987—and generally give greater room for manoeuvre to economic policy makers.

Officials are well aware that falling oil revenues will affect the capacity of Turkey's major trading partners in the Middle East, such as Iran, Iraq, Saudi Arabia and Libya, to pay for imports.

But the conventional wisdom in Ankara is that since Turkish exports to the Middle East Opec countries, and Iran and Iraq in particular, are composed of essential foodstuffs and commodities such as iron and steel products, artificial fibres and cotton, their elasticity is not very great. In short, they are products which those countries could not do without.

The official optimism about the balance of payments outlook is not necessarily shared by all economic experts, who underline Turkey's sensitivity to economic constraints in major oil-producing countries. All the main Middle East oil producers, who normally take more than 30 per cent of Turkey's total exports, are currently experiencing economic difficulties, it is pointed out.

As a result, Turkey which traditionally has concluded long-term barter agreements with Iran, under which it has paid much more than the spot market price for oil, is currently finding it extremely difficult to persuade Iran to renegotiate the oil price in the latest bilateral agreement. Iraq, for its part, has found itself unable to repay its short-term debts to Turkey.

According to the pessimists, much of the savings made on oil imports could be offset by lost Middle East exports whatever officials say about the "inelasticity" of these markets. But even if the net benefits are small, the current account deficit, which has been on a declining trend since 1983, is expected to fall further this year by several hundreds of millions of dollars, thanks to higher earnings from tourism.

Presumably, the easier balance of payments situation, which has persuaded Mr Ozal to dispense with IMF standby agreements, will prevent a repetition of the crisis of confidence which led to the devaluation of the Turkish lira by 5.3 per cent against the dollar in March this year. The mini-crisis occurred in spite of the fact that foreign currency reserves stood at a respectable 3.5bn at the time and that the current account deficit was decreasing. Yet the financial community was gripped by the conviction that there was a foreign currency shortage which led to the building up of speculative positions.

The whole affair was an object lesson of the way psychological factors can play havoc with an economy which has only recently opened itself up to the outside world and still lacks the confidence that it can survive a harsh climate of international competition.

No doubt, the authorities and the Central Bank underestimated the snowball effect of a succession of measures which all helped to build up anxiety.

First, the Central Bank imposed 20 per cent reserve requirements on foreign currency deposits at the commercial banks. This coincided with the phasing out of export subsidies in the last months of 1985, in line with Turkey's decision to adhere to the GATT code of conduct, bringing with it the fear of falling revenues from export sales. Then, the publication of export figures for December 1985 was delayed for several weeks, provoking speculation that there had been a sharp drop in export payments. At the same time, rumours were rife that exporters were delaying the repatriation of foreign currency earnings because of what they considered to be an overvaluation of the lira. That worsened any foreign currency shortage that already existed.

Finally, the authorities had no choice but to devalue and accept a rate for the dollar and D-mark which for many weeks previously had already prevailed in commercial bank currency dealings. By restricting to 1 per cent the fluctuation margin on either side of its official exchange rate for commercial bank dealings, the Central Bank hopes to avoid a similar crisis when temporary foreign currency shortages next occur.

For the moment, however, the conditions in which the devaluation took place appear to have set back temporarily plans to liberalise the foreign exchange regime, which include making the lira fully convertible.

The natural inclination by foreign observers of the Turkish scene to single out the positive aspects of Mr Ozal's economic reform programme, by comparing it with the economic "dark ages" that existed in Turkey only a short time ago, have tended to obscure some of its failings.

Undoubtedly, one of the biggest so far has been the failure to bring inflation under control, which was running at around the 50 per cent mark in 1984 and was brought down only to 45 per cent last year in spite of an official target of 25 per cent.

For 1986, the authorities continue to aim at 25 per cent, but it is admitted by officials that the out-turn is more likely to be in the 30 to 35 per cent range. Lower prices for Turkey's imports, particularly oil, should do much to accelerate the downward trend, though it is significant that the government intends to keep the retail price of petrol steady.

However, the decline in inflation in the industrialised countries to the lowest levels since the first oil price shock in 1973 means that the gap between Turkey and its main Western trading partners remains very wide and is likely to put further strains on the exchange rate of the lira.

The constraints imposed by inflation have meant that growth has fallen somewhat short of the target set in the 1985-89 five-year development plan. Last year, GNP fell to 5 per cent from 5.9 per cent in 1984 and, though the government has set itself an ambitious target of 6 per cent in the current year, it will certainly continue to be careful not to overheat the economy in a bid to keep prices down.

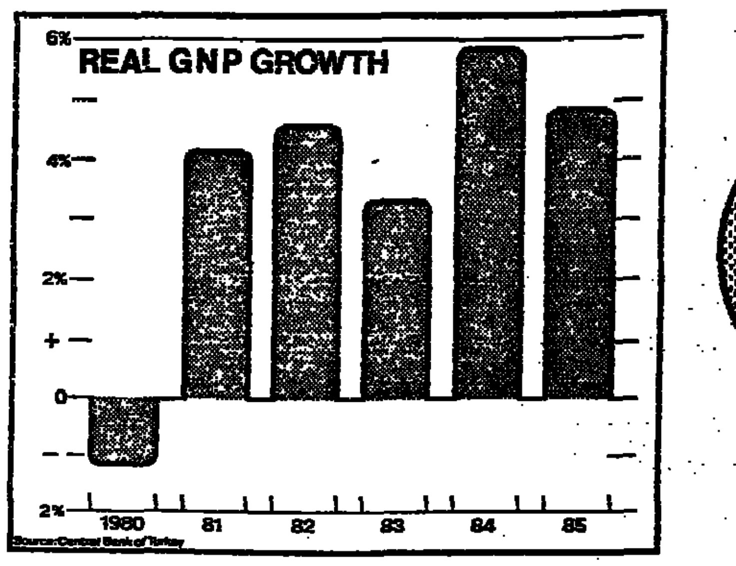
The effect of inflation on large categories of wage-earners has been disastrous, with many seeing their real wages decline by nearly 20 per cent over the past two or three years. In a country where GNP per head of population is still barely above the $1,000 per capita mark, that could prove very damaging politically for Mr Ozal's government if it is not put right quickly.

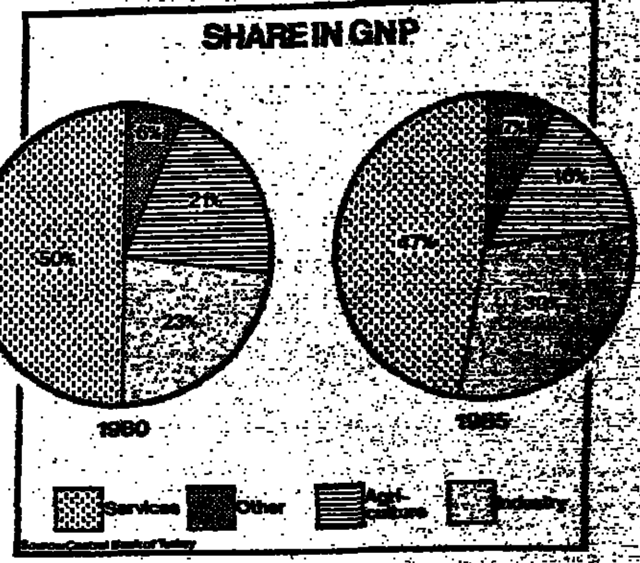
The good news is that a determined effort is being made to bring the budget deficit, one of the main causes of the high rate of inflation, under control by reducing it from 5 per cent and 2.5 per cent of GNP in 1984 and 1985 respectively to only 1 to 1.4 per cent in the current year.

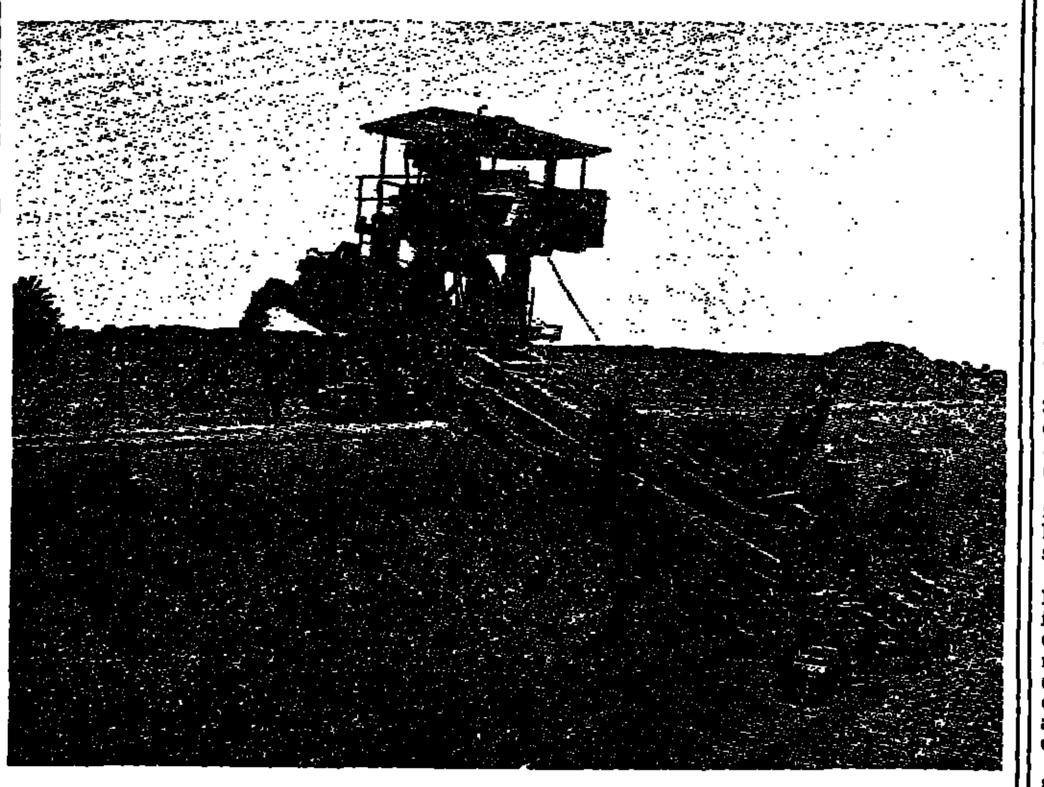
While the government has been cutting public expenditure in real terms, the revenue side of the budget has benefited to a quite unexpected extent from the introduction of Value Added Tax in January 1985, which brought in an estimated TL 1,000bn (£1b) last year.

Altogether, therefore, the economic prospects for Turkey are rather brighter in the spring of this year than they were at the same time in 1985. If further progress is made towards bringing down inflation, as can be expected, and exports can be maintained in spite of falling Opec oil revenues, Mr Ozal should find it easier to push through some of the many economic and financial reforms which still remain to be made.

Robert Mauthner







Local Government

Cleaning up in two big cities

THE MAYOR of Ankara is determined that his citizens shall be able to breathe clean air next winter. The Mayor of Istanbul is determined that the waters dividing his city on two continents shall remain a cesspool no longer.

Since 1984, both men have been given the financial backing to make their dreams come true.

They also have the power to do something about the problems of transport, housing, water supplies, and other environmental difficulties which have mushroomed as populations have boomed. The money these mayors have to spend is substantial and many would say that the new local authority system has come not before time.

The two cities' problems are similar, but the priorities in solving them are different. Mr Altinsoy, Ankara's Mayor, identifies his most immediate task as reducing the severe air pollution which results from the burning in factories and homes of Turkish-produced lignite.

Pollution levels are double the maximum internationally-advised level, resulting in real problems for asthmatics, an increase in heart disease and a most unpleasant environment for all. Four ideas are being pursued to solve the problem.

Immediately, the municipality is to import 500,000 tonnes of "clean" coal from abroad for use next winter for home-heating. Companies in Australia, the US and South Africa are bidding for this contract, which could be worth as much as $40m.

Second, a new electricity plant is to be built, using coking coal and natural gas instead of the dirty lignite; and a Japanese company has been appointed to clean the existing lignite-fired power station in the meantime.

In the longer term, a deal signed between the Turkish central Government and the Soviet Union, to supply natural gas to Turkey, expected to begin operations in 1988, will, it is hoped, solve the air pollution problem in Ankara.

Mr Bedrettin Dalan has been no less fast on his feet in dealing with Istanbul's pollution problem. The Golden Horn, which runs off the Bosporus and divides the European halves of the city, had been deluged with industrial waste and sewage for years. Along its banks were hundreds of badly constructed small factories and workshops.

In a $300m project, the city has installed a waste collection scheme, cleaned 110 km of seashore, rehoused small factories in an industrial park on the outskirts of the city and established 18 km of parkland, so far, in its place. A sewage system is also being put in.

The two cities share a water problem. Ankara at present can supply only about half its needs and a new dam, designed to fill the gap, has run into problems with water seepage in the connecting tunnel. An extra TL 43bn (£43m) has been needed to repair the tunnel, bringing the cost of the dam project to TL 150bn.

In Istanbul, two dams are being built, one financed by the municipality at a cost of TL 25bn which, it is hoped, will increase supplies by 70 per cent. A third dam, at Isakoy costing TL 50bn, may be put out to international tender this year.

Neither city can boast an urban transport network yet, and both are keen on a light rapid transit, semi-underground system. Asea of Sweden has already won the contract to instal Istanbul's system over the next two years, at a cost of $300m and UTDC, a Canadian company, is doing a feasibility study for Ankara's system, expected to cost a similar amount. Bids are likely this month and Ankara will hope to get substantial credits from abroad.

Istanbul, with its 2,000 years of history and high population growth, has far worse traffic problems than the capital. A plan to reorganise transport has been drawn up and partly implemented. It includes:

- The purchase of 10 "seabus" ferries from Norway, costing $30m, to transport passengers across the Bosporus.
- A fourth bridge, costing $30m, across the Golden Horn (the second Bosporus bridge, financed by central government, will also help relieve congestion).
- A series of new roads and tunnels, including one under Bosporus, and the repair and renewal of the Galata bridge.
- Installation of a centrally controlled traffic-signalling system.
- Purchase of 500 new buses from MAN of West Germany at a cost of DM 50m.

Ankara has also invested in new buses, buying 91 articulated buses from Hungary, described as "cheap but good," and 400 from Turkish companies.

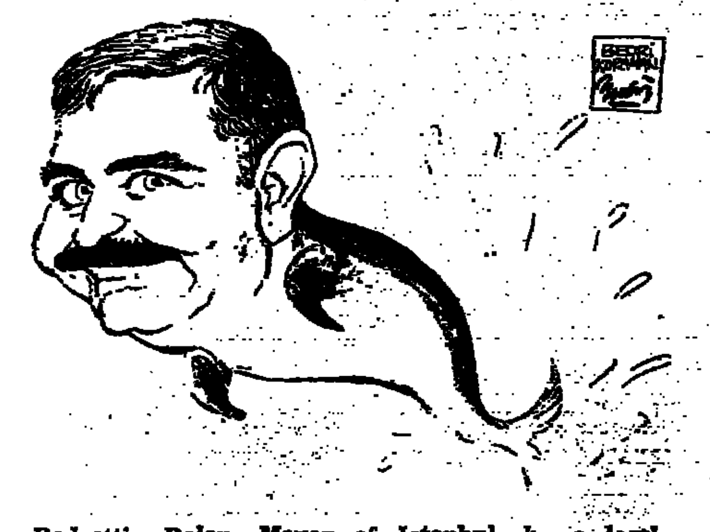
Perhaps the projects closest to the two men's hearts are concerned with the beautification of their cities. In Ankara, a new city in relative terms, which grew from a small agricultural community when Kemal Ataturk, the founder of modern Turkey, decided to set up his capital there in the 1920s, Mayor Altinsoy has chosen to concentrate on a plan to establish a new leisure park. It will have an ornamental lake, botanic gardens, a planetarium and restaurants, as well as a five-star 700-bed hotel. The park, which will also have theatres and a funfair, will be built by a German consortium at a cost of between $150m-$200m.

Historical and cultural matters are of strong concern to Mayor Dalan. He is spending TL3bn on the first stage of a project to renovate the Byzantine city walls of Istanbul, but has run into an argument over a private-sector project to renovate more recent buildings from the Ottoman period.

One set of critics argues that some renovation has not been done authentically, and the Mayor himself complains that a group of houses, rebuilt in 1860s style immediately next to the Topkapi museum, violates the architectural effect of the palace.

Whatever the rights and wrongs, in the long run a matter of taste, no one could be unhappy that the conservation of such an important and beautiful city should be a matter for fierce public debate.

Maggie Ford



Bedrettin Dalan, Mayor of Istanbul, by a local cartoonist during the waterway clean-up

More power for metros

IN AN effort to decentralise decision making, the Ozal government established a new system of local government in Turkey in 1982. There are three levels—district, provincial and metropolitan. The last affects only the main cities of Ankara, Istanbul and Izmir.

Mayors of the cities are directly elected. The current ones are members of the ruling Motherland Party. Metropolitan councils are drawn from those elected to the district councils. An appointed executive committee also has a role in decision-making.

Until recently, local authorities had negligible powers to raise funds. Under the new system, the metropolitan councils get 5 per cent of local tax revenue. They are also able to collect rates, rents from government housing and other taxes. A grant usually comes from the central government.

Istanbul's revenue last year was TL 200bn, including TL 90bn from taxes, TL 40bn from central government and TL 50bn in rates.

The councils are also able to borrow money at home and abroad, subject to government approval. To develop housing and other infrastructure, they can apply for help from a special fund set up by the central government for this purpose.

The fund contains import tax revenue from luxury goods such as liquor, cigarettes and perfume, as well as the proceeds from the $100 tax Turks must pay to travel abroad. The fund is believed to have accumulated as much as $600bn since it was set up.

The councils and mayors were elected to five-year terms in 1984 under similar restrictions on the participation of political parties as in the central government. It is not yet clear how any future political liberalisation at the centre would affect them.

Banking

Past debts weigh heavily

TURKEY'S DRIVE to restructure its economy is seen most strikingly in the banking system where different types of bank and banking operation exist side by side. Big banks compete with small banks, state banks with private ones, Turkish banks with foreign banks.

Many of the older and larger operators, particularly in the public sector, still find the past weighs heavily on them but progress achieved by the sector as a whole over the past two or three years has also put the pressure on the small one-stop operations.

Last year was a difficult year for the larger state banks, which carry a disproportionate share of the debts of industry. One bank—the Ziraat Bankasi—is encumbered by 60 per cent of the country's published non-performing loans, having been used two or three years ago to mop up the affairs of several insolvent banks and industrial groups.

Ziraat is Turkey's oldest and by far its largest bank. Its problems are basically the result of past mismanagement. The position of some other state banks is more open to question. In April the Anadolu Bankasi found itself being sued for TL 2.7bn (£2.7m) by the Akbank for claims arising out of the debts of the Basak group.

An injection of funds from the Treasury was needed to solve the dispute which saw Anadolu temporarily suffer the unprecedented humiliation for a state bank of the sequestration of some of its branches. Similar court cases from other banks are still pending.

The burden of non-performing loans from industry is said to be shrinking—though at present no one knows the exact figures involved—but the profitability of many of Turkey's major banks seems likely to be affected for some years to come. One of the biggest of Turkish banks is thought by its competitors to have been able to show a balance sheet profit last year only by cosmetic adjustments including a reduction in its provisions against defaults.

Trade finance, foreign exchange transactions and purchases of Treasury bonds seem to be the three easiest ways to make money in Turkish banking. Retail banking is out of favour though the larger private banks compete for deposits. The use of cheque books is still very limited as are inter-bank clearing services. Turkish consumers pay almost all their bills in cash.

Limited charges—and distrust of bad cheques prevents banks from encouraging cheque book transactions, though at Yapi ve Kredi, Mr Husnu Ozyegin says that his bank is considering various security devices which would make payment by cheque more easy.

Like other bankers, Mr Ozyegin sights are set on sophisticated banking operations with international banks. He is proud of a $30m revolving underwriting facility (RUF) arranged this spring by Merrill Lynch and the Commonwealth Bank of Australia.

The RUF is the first of its kind ever in Turkey and is hailed by Mr Ozyegin jokingly as "our annual check-up," proof that Yapi ve Kredi—which went through tough times in the early 1980s—is now enjoying the confidence of the international banks again.

The most profitable of the Turkish banks, however, remains Yapi ve Kredi's arch-rival, the Akbank, the flagship of the Sabanci Industrial group, and run with legendary firmness by Mr Erol Sabanci.

Banks like Yapi ve Kredi and Akbank which rely to a considerable extent on their large deposit bases, however, have been jostling in recent months with much smaller competitors like the Ekonomi Bankasi and the Iktisat Bankasi which offer what are described as merchant-banking type services and whose size enables them to achieve a higher degree of efficiency than the big banks, especially the state ones.

"The Ekonomi Bankasi" Mr Akin Akbaygil, its general manager, says proudly, "was the only bank in Turkey that had no bad loans in 1985 and we had gross profits of TL 2.6bn against equity of TL 2bn. In three years we have not lost one Turkish lira even though the climate is very difficult for bankers."

The Ekonomi Bankasi is cautious about entering many areas of the market including Treasury bonds. By contrast, Mr Erol Aksoy at the Iktisat Bankasi does an active trade not only in Treasury bonds but also in corporate bonds.

A long-standing advocate of deposit rate competition (at present lending rates are set by banks but deposit rates are fixed by the Government every three months), Mr Aksoy disputes the claims of the larger banks that deposit rate competition would mean undue market disturbance and some bankruptcies.

"You might as well fix the prices of cucumbers and tomatoes as try and control millions of transactions in the market place," he says. "I want to pay a different price for money. I am already doing it through the bond system."

The vogue for small banks in Turkey continues. A new textile bank will be launched this year—though it will not specialise in extiles. One of its founders, Mr Selcuk Altun of Edpa, the textile and marketin group, believes that major corporate customers are still ready to give some of their business to any bank offering services cheaply and efficiently.

Foreign entrants to the market also continue. One of the newest arrivals is the Bank of Bahrain and Kuwait.

Not everyone is sure that these kinds of operation are necessarily the key to success that they once were. American Express has sold a controlling interest in its highly lucrative Turkish operations to the Koc Group. The move is seen as an injection of capital necessary to provide the bank (now renamed in Turkey as Koc American) with a chain of branches.

Citibank is also known to be planning a Turkish subsidiary, probably to be known as Citibank AS Oyak, the military pension investment fund industrial conglomerate, is named as a likely partner in the venture by other bankers.

Management seems to be the magic ingredient for the successful Turkish and foreign banks alike—as well as continuing vigilance against customers likely to default.

While the recovery in the larger commercial banks encourages many observers and the growth of the smaller ones is impressive, many feel that the banking system will not be fully healthy until the state banks show some signs of catching up.

There is also worry at management of the system by the Central Bank. Plans for greater supervision and moves towards a standardised accounting system for all banks next year are applauded. But the Central Bank's nervous attempt to draw back foreign exchange holdings from the commercial banks after it became clear late last year that Iraq was not going to say $1bn of its debts to Turkey, led to a market scare this spring which ended with the reimposition of tight margins for foreign exchange sales—and the death of Turkey's embryonic foreign currency interbank market.

David Barchard

The Funds

Public snaps up bonds

DEVELOPMENT projects such as roads and hydro-electric dams are already benefiting from the TL 250bn (£250m) raised by the privatisation programme even before the big sell offs begin.

The main investment vehicle, the Public Participation Fund, has derived its first income from the sale to the private sector of revenue sharing bonds and operating rights in some state economic enterprises.

The public has continued to snap up the bond issues since the first one in December, 1984, plugged investors into the profits of the Bosporus Bridge. The bonds carry a guaranteed rate of return over three or five years.

The latest issues in February raised TL 18bn, again from the bridge and the Keban hydro-electric dam on the Euphrates. Other income has come from the sale of a 10-year operating right in a dairy and the sale of three partially built textile plants.

The fund, which is controlled by an appointed board rather than parliament, was set up by the Ozal Government to provide off-budget financing for development projects. Sister funds are tackling the shortage of low income housing, poverty and expansion of defence industries. Some international agencies are concerned, however, that the novel financial arrangements will weaken the Government's control over fiscal policy.

The participation fund's first income has speeded up construction of 14 hydro-electric dams, said Mr Vahit Erdem, who administers it and several other funds. On average, the plants will come on stream a year earlier adding a total of 20bn kilowatt/hours annually to the national grid.

The fund is also heavily involved in plans to build a toll motorway from Edirne on the Bulgarian border, around Istanbul via a second Bosporus bridge and on to Ankara. The 700 km project is being awarded in sections to international consortia which must offer financing plans. The fund will contribute from its own resources and also borrow in its own name under Treasury guarantee.

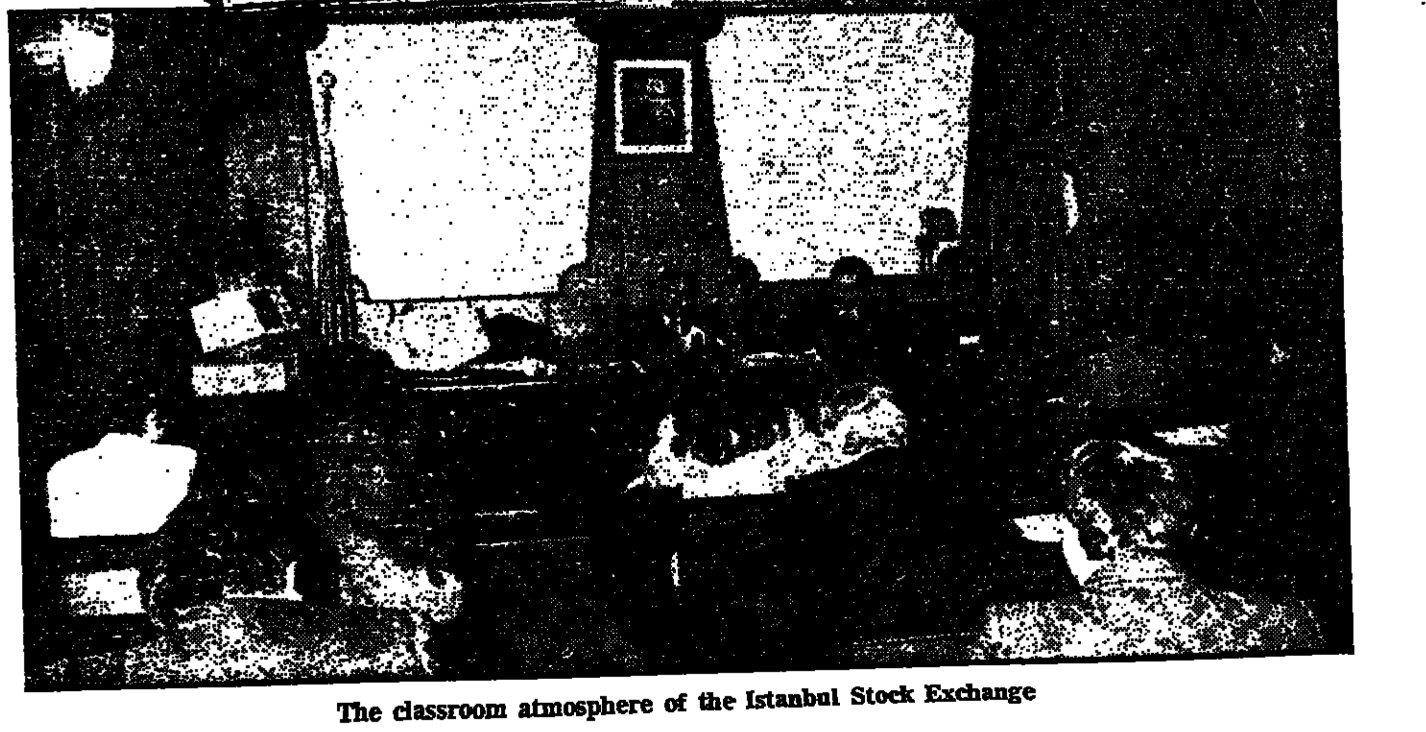
The fund's third main activity at the moment is the provision of low interest credits for development projects in eastern Turkey. But the fund must wait for the proceeds from privatisation before it can slip into top gear.

In contrast, the fund designed to tackle the country's chronic shortage of houses is well underway, Mr Erdem said. Its income of TL 500m last year came from taxes on petrol, luxury imports, alchohol and tobacco and from a TL 100 exit tax on Turks travelling abroad. Mr Erdem expects income of TL 550m this year.

Trade partners, however, are beginning to show displeasure at the levies and may challenge them under international law. Recently, Scotch Whisky distillers complained about a label stamp showing a TL 100 (10p) per bottle contribution to the defence development fund.

The housing fund is investing faster than planned, Mr Erdam said. In its first 18 months it has mortgaged 250,000 housing units for low income families of which 100,000 have been completed. This represented 60 per cent of all house-building and came in a market sector which could attract virtually no funds in the past. The fund is aiming for 800,000 units in its first five years of operation.

Rod Oram



The classroom atmosphere of the Istanbul Stock Exchange

Stock Market

Unruffled by slow start

TRADING ON the Istanbul Stock Exchange is a leisurely process. Seated behind a raised desk, an exchange official takes the 40 quoted shares in turn. A slide is projected on to the screen beside him, giving details of any lots of shares for sale or any purchase requests. Occasionally, a dealer seated at one of the 60 desks in front of him will raise his hand and a deal is closed.

The atmosphere is more that of a classroom than that of a market and turnover is low. In the month of April TL422m worth of shares and TL979m worth of company bonds were traded—a total of TL1.4bn or US$2m.

Although Turkey's first Stock Dealers' Association was formed in 1864, operating out of the evocatively-named Caviar building, in its present form the exchange only opened its doors on December 26 last year. As Mr Muharrem Karsli, chairman of the exchange, says: "We are where Korea was in the late 1950s."

The Turkish authorities are not concerned about this slow start. They are more interested in building solidly then rapidly. Their caution is understandable. Scars still remain from the bond brokers' bankruptcies of 1981 and 1982.

Now, helped by the International Finance Corporation, new legislation has been enacted and a Capital Markets Board has been established. Over-regulation rather than under-regulation is the order of the day.

Most of the licensed dealers are banks. They include Citibank, which has been told that it is not infringing the Glass Steagall Act's provisions restricting US banks' stock activities. However, exchange turnover in corporate stock seems likely to grow only slowly. Demand, in the form of public interest in stockholding, is limited, and there is a marked shortage of suitable stock.

One problem has been the persistence of inflation and the high interest rates available on, say, bank deposits or Treasury bills. Another is that the majority of Turkish companies are family affairs and few have their accounts externally audited.

A quick analysis of the 40 shares listed in the primary market shows that 87 per cent of their shares are held by family members, banks or state economic enterprises. Only 13 per cent are held by the public at large.

Would-be players on the exchange like Mr Erol Aksoy, chairman of the Iktisat Bank, regularly underline the need for new tradeable instruments.

The Government's plans to privatise some of the state enterprises could introduce some more lively issues to the exchange but at present the most lively capital dealing in Turkey — in government bills and bonds—takes place outside the exchange.

The Treasury has a weekly auction of TL 30-TL50bn worth of six and 12-month paper. Interest rates available have been around 50 per cent per annum.

By law dealers are forbidden from making any formal repurchase commitment, but, based on informal commitments, an active secondary market is beginning to develop in both Treasury bills and in the two and three-month government paper issued to contractors to whom the state owes money.

Treasury bills amounted to TL 162bn of the TL 284bn worth of capital issues made in the first two months of the year and government bonds to TL 20bn. The other major item was TL 67bn of certificates entitling the holder to a share in the revenue from the Keban hydro-electric dam. Private sector stock issue amounted to a mere TL 0.6bn and Bond issues to TL 11.4bn.

David Tonge is a director of IBS, an Istanbul firm assisting foreign investors and traders in Turkey.

David Tonge

Trade

Touch and go for exports as oil price falls

THIS YEAR will be touch and go for Turkey's so-far highly successful export drive, as the fall in the oil price reduces the spending power of its three main Middle Eastern markets, Iran, Iraq and Saudi Arabia.

Although Turkish officials are confident that the reduction in costs of their own oil imports will produce a balance in their favour, and that exports will hold up to the Middle East, their optimism may not be borne out in the end.

Negotiations are going on at present on the price at which Iranian oil is sold to Turkey, often as part of barter deals. At the same time, Iraq is understood to be asking for a deferred payment on its debts to Turkey. A similar request from Libya, which is already behind with its payments, is not unlikely.

The sums involved are substantial. Turkey exported goods worth $2.5bn to the three Middle East oil producers last year, 31 per cent of total exports which amounted to $8bn. Only the European Community was a larger market, with 39 per cent of $3.1bn, West Germany taking $1.3bn, or 17.5 per cent, of Turkey's total exports.

Imports from Middle East oil producers also made a significant contribution to the total volume of $11.3bn in 1985. Iran, Iraq and Libya provided goods, mainly crude oil, worth a total of $3bn last year. Turkey's crude oil import bill amounted to $3.3bn last year.

Substantial savings, amounting to as much as $1.2bn, are expected this year, and Turkish officials say that, although it is too early to say how badly the price fall will affect Gulf countries' import plans, there is optimism that the change may produce a net benefit to Turkey of $400m to $500m.

Officials argue that raw materials, food and industrial goods will still be needed in these countries. Nevertheless, they are looking elsewhere, especially in the Far East, for new markets.

Efforts to increase links with Japan appear to be paying off, with Tokyo taking part in a World Bank co-financing for a $750m hydro-electric dam project. Turkish banks have also recently made private placements in Japan of around $50m.

Turkish officials point to Japan's involvement in the second Bosporous bridge project, and in other energy projects, as evidence that their efforts are paying off. Total volume of trade between the two countries remained at the low level of $550m last year, overwhelmingly in Japan's favour.

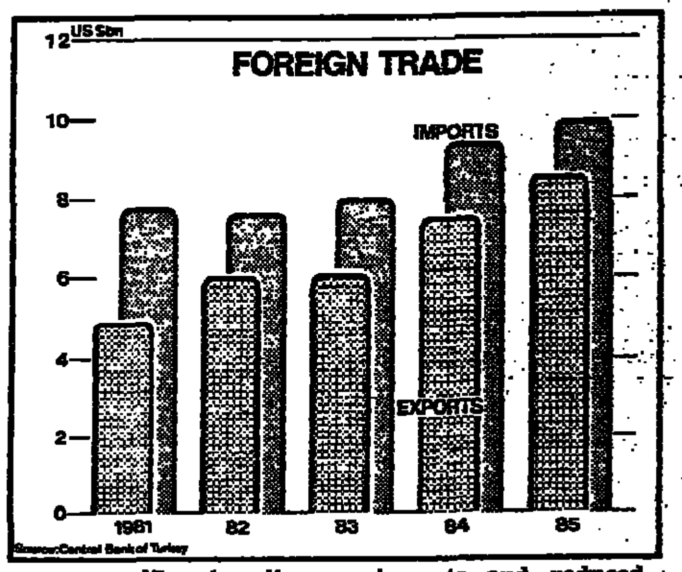
Turkey's trade problems with European countries took a turn for the better last month, when a new agreement was negotiated between Turkish textile producers and the European Commission in Brussels. Textile exports were worth $1.8bn to Turkey last year, a fall of 4.6 per cent on 1984, but still accounting for 21 per cent of total exports, the largest single category.

Textiles have been a matter of dispute, leading to tariff and quota wars with the EEC for years; and the new outbreak of peace has been welcomed by both sides. The agreement allows for a margin of growth in Turkey's share of the market over the next three years of between 4 and 6 per cent, depending on the category of item.

Ankara has been far less successful in persuading the US that it should have a larger share of the US textile market than the $80m it already earns. Turkish officials argue that the country is unfairly discriminated against, as a late entrant to the Multi Fibre Agreement, in favour of Far East producers like Hong Kong. Having such a small share of the US market should mean that Turkey is allowed a higher rate of growth, they say.

American officials argue that Turkey had increased textile exports to the US by 38 per cent in 1984, and that only eight categories out of 120 are restricted.

Apart from agriculture and livestock exports, worth $1.7bn last year, a decline of 1.7 per cent in over the previous year, the third most important export items are iron and steel, worth $968m in 1985, a growth of 68 per cent over 1984. That year had itself seen iron and steel exports increase by 41 per cent.



A more liberal policy on imports and reduced spending power in Middle East markets spell challenges for Turkish firms in 1986. But new horizons have been opened up by the success of Turkish exporters since 1980

Much of these exports go to the Middle East, and this year will be very vulnerable to the dramatic fall in oil prices and the further flare-up in the Gulf war.

Although Iraq and Iran have attempted to continue development programmes during the war, the substantial fall in income they are experiencing must put a continuation of this policy in doubt. Protectionism in other markets will probably mean that Turkey will have difficulty in finding alternatives, and payments deferral in its existing markets may be necessary.

Along with Turkey's drive for higher exports has come a more liberal policy on imports, designed partly to encourage local producers to become more competitive, and also to assist the collection of higher state revenue. Profits previously going into the pockets of smugglers are now collected as import duties by the state.

The sight of Nicaraguan bananas and Roquefort cheese in shops has certainly been a new experience for Turks, whose economy was closed to most imports for many years. Liberalisation of imports now affects 77 per cent of goods which are now allowed free entry (subject, of course, to duties). The rest are likely to be freed over the next three years.

An idea of the effect of the liberalisation on local competitiveness may come shortly in the award of a small contract, worth around $1.2m, by the state petrol products distribution organisation, Petrol Ofis.

Companies from the US, Saudi Arabia, the UK and the Soviet Union have tendered for the deal to supply 2,500 tons of ethylene glycol for anti-freeze, along with the Turkish state-owned petrochemical company Petkim. Although it suffers from competitive constraints related to the pricing of its raw materials, Petkim is confident that it can win the contract.

Ten years ago, the very idea that a state-owned business would put out to tender such a contract, when another state-owned company could supply the goods, would have shocked most Turkish businessmen. But, as one Petkim official says: "I tell my younger colleagues that they are lucky—they think in dollars and Turkish lira. When I was their age, I thought only of production figures."

Businesses with older plant and less innovative management may take longer to react to the new regime, and the consequence for others in terms of wages have not always been happy. But for most Turkish businessmen the idea of joining the real world appears to have opened up new horizons.

Maggie Ford

Privatisation

Hard decisions about targets

ADVOCATES OF radical economic restructuring will have plenty to mull over this summer when a weighty masterplan for privatisation lands on their desks.

It is likely to present the Government with some difficult decisions about the targets and methods for selling off state economic enterprises (SEES).

The report, by Morgan Guaranty, the US investment bank, is the final part of an extensive study of 36 SEES undertaken by foreign consultants and domestic agencies.

Armed with these analyses, the Government will try to implement Prime Minister Turgut Ozal's cherished ambition of removing the state from large areas of the economy. State-owned companies, for example, are responsible for some 40 per cent of industrial activity.

The first, as yet modest, monies from privatisation are already flowing into development funds to provide off-budget infrastructure finance. Studies of the cement, textile and fertilizer sectors, and of Turk Hava Yollari, the national airline, are complete, although no decisions can be made until Morgan Guaranty presents its master plan.

Some broad trends are apparent, however. First of all, the efforts to bring private investors into Turkish Airlines have been badly bogged down in such problems as its form of incorporation, its future financing needs and its subsidised internal routes. These problems could be solved by the end of this year, enabling the sale of 10-15 per cent of its equity to its employees as a first step to privatisation. The early sale of USAS, its airport services subsidiary, is also a possibility.

The Government still wants to involve a foreign airline in Turkish Airlines, as either an investor or a contracted manager. There's plenty of scope for improvement in the company since its aircraft average only six hours a day in the air and its workforce is top-heavy with low-skilled workers and light on highly skilled.

It looks as though the cement and textile sectors will offer the easiest scope for privatisation. A prime candidate, for example, is the 400-shop retail chain of Sumerbank, the state's textile industry holding company.

The degree of restructuring needed before privatisation has yet to be decided, on a case-by-case basis. But the Government has already taken some steps, such as curbing the growth of employment in the SEES, many of which are over-staffed.

Fortunately, the SEES had become more inviting investment prospects with a two or three-fold increase in profits in recent years, said Mr Yakit Erdem, who is in charge of the privatisation programme. Virtually all companies are profitable, except for a few with a social role such as railways and shipping lines.

The Government saw no financial impact, however, from giving up these profitable companies, said Mr Dogan Yurukan, Head of Research at the state planning organisation. The state would benefit from the privatisation proceeds and rising tax revenues as the companies became more productive under commercial managements.

Not all SEES managers and employees, or officials in the Treasury, which controls the enterprises, are convinced of the benefits of privatisation. Some SEES are worrying, for example, about the fate of unprofitable subsidiary after profitable ones are sold off, according to two researchers in the Industrial Development Bank of Turkey.

The Government will launch a campaign to address these concerns and explain the benefits of privatisation once the master plan and sectoral studies have been digested, said Mr Erdem.

Rod Oram

Agriculture

Potential for much greater output

TURKEY, a country almost half as big again as France, has a wealth of microclimates which allow it to grow a range of crops from wheat to olives, from sugar beet to cotton and from nuts to tobacco.

It is one of the handful of countries that is self-sufficient in food and, despite the demands of its burgeoning population, its agricultural exports — $1.7bn last year — account for nearly a quarter of the country's total.

With the Government's greater emphasis now placed upon the development of industry, this is a much smaller proportion than it used to be—15 years ago it was more than two-thirds. As a proportion of gross domestic product, the sector now accounts for about a fifth, although it remains far and away the biggest employer, utilising about half of the 18m workforce.

The potential is undoubtedly there for much greater output but in recent years the growth rate has fluctuated. It declined by 0.1 per cent in 1983, then rose by 3.7 per cent the next year and by 2.8 per cent last year.

To stimulate efficiency and restrain inflation, the Government has shifted policies away from heavy support for farmers and towards a freer market with more permitted imports. A wide range of foodstuffs, from French cheeses for the urban middle-class to staple crops like wheat, are now imported.

The Government sets the prices for about 20 crops and farmers complain that these are not keeping pace with the inflation in input costs such as seeds and fertiliser. "We could feed 100m right now if farmers were supported and prices and investment were right," claims Mr Osman Ozbek, president of the Turkish Chambers of Agriculture.

Farmers do receive subsidised credit through the Agriculture Bank and the Government is pressing ahead with irrigation projects, notably the Ataturk dam which will water the parched plain of Urfa, and with measures to improve seed and livestock quality. But there are few agricultural extension facilities.

"There is a level of complacency about the ministry's policies because the country has been self-sufficient," says an agriculturist. "Not all the efforts are well-directed. For instance, they are experimenting in growing coffee and kiwi fruit which are already over-subscribed on the world market. Bananas are grown in the south but they would be cheaper to import."

Many of the farming methods remain primitive and, although there is little substistence farming, land reform to encourage more efficient production is virtually non-existent. Farms range from family holdings with a few scattered fields and equally scattered sheep (Turkey has almost as many sheep as people) to some state holdings and, in the east, large feudal estates with absentee landlords.

Higher production is only part of the agricultural equation and there is agreement that the quality, handling and marketing of food all needs to improve.

Mr Ozbek comments: "Turkish farmers can produce anything at best quality but someone—the customer—has to ask for it. Our problem is marketing. The standardisation of products needs to be improved and the cold storage and packing. We want to encourage agribusinesses—but people are more willing to invest in industry."

There are developments: Turkish companies such as Yasar have opened big slaughterhouses and meat packing plants and international companies like Ross of the UK, which is involved in poultry production, and the Anglo-Dutch multinational Unilever have operations.

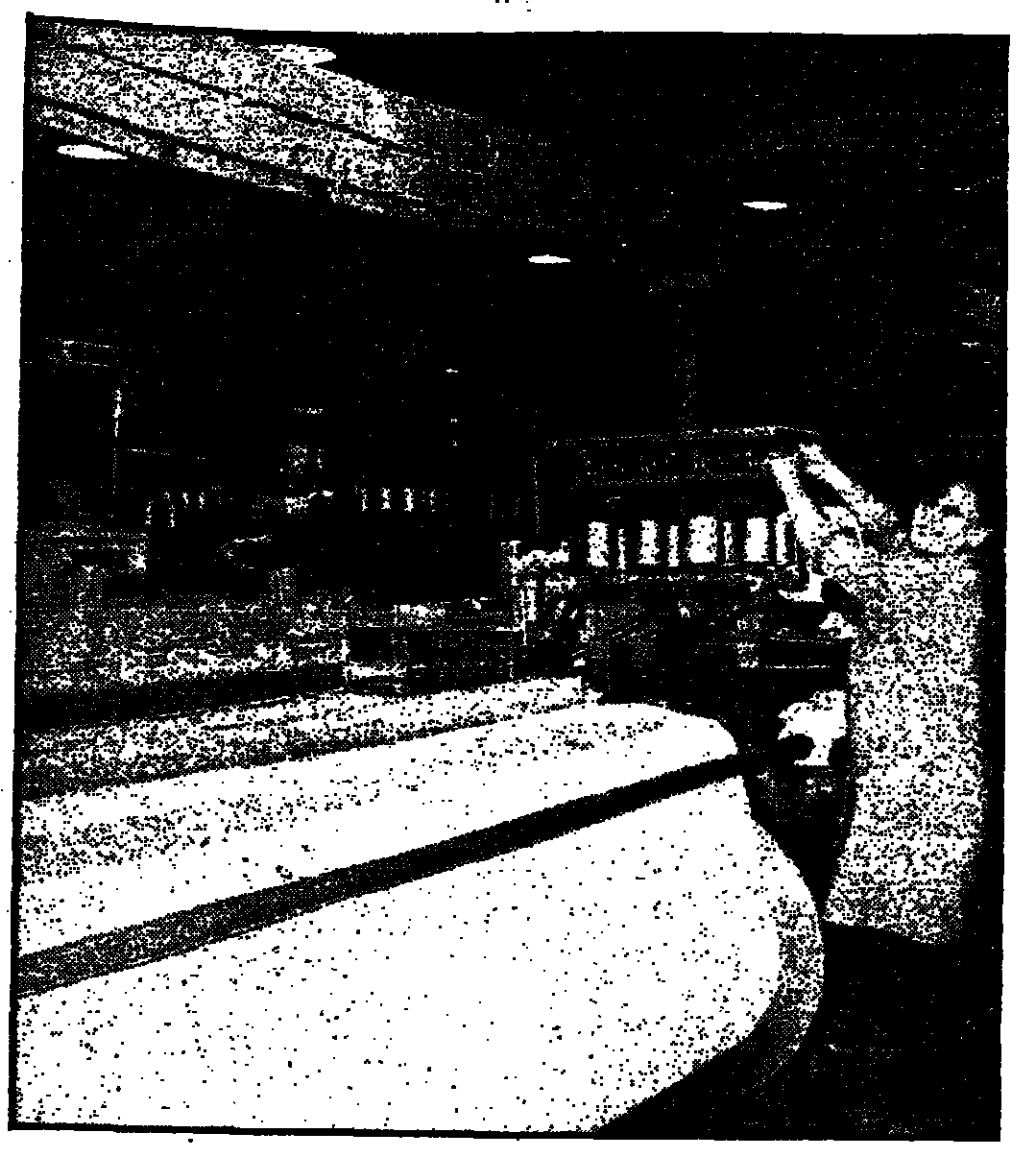
Unilever, in fact, set up the country's first margarine factory in 1953 and is now involved with the Dosan tomato paste and canned foods enterprise and, in a joint venture, with improving the yield and disease resistance of sunflowers.

The efforts to modernise Turkish agriculture do present a dilemma for the country. The surplus of cheap labour has provided a disincentive; since 1979 there has been only a small decline in the agricultural workforce. "But mechanisation could destroy the rural economy," says an agriculture adviser, "with a danger of another massive move into the cities."

The Development Foundation of Turkey has been seeking to adapt aid to the needs of the small farmers. It provides financing schemes which, individually, farmers would be unable to obtain and, for example, has 500 poultry farmers organised in a venture which now produces one in five of all the country's broilers.

"We start with improvements to fodder crops, then cross-breeding and supplementary feeding of pregnant cows and veterinary services. Eventually, there should be more milk in the community. But the real test is what you do with the milk. So we move into the second area—milk collection and processing—and we have set up a number of creameries."

Roland Adburgham



Mensucat Santral textile plant at Kazlicesme

Mining

More incentives for new investors

THE MINING industry has so far failed to attract the flood of investment which the Government had hoped to stimulate with a new mining law passed last year. To make matters worse, exports were stagnant in 1985 at $299.6m, despite price rises in some of Turkey's main minerals.

The law was an attempt to streamline the aged and cumbersome bureaucratic control of mining while giving domestic and foreign investors more incentives to exploit the country's natural resources.

Mining companies applaud many aspects of the new law, but say its attempted implementation is seriously flawed. The Turkish Miners' Association, which represents private sector mines, spelt out its members' frustrations in a letter to Prime Minister Turgut Ozal in March.

Most important, no claim has been approved under the new law, according to Mr Namik Esmer, the association's secretary general. This is mainly because tenders have been called only recently for a computerised claims administration system, on which the law is based.

Maps constitute another stumbling block. The new system defines claims by co-ordinates on 1:25,000 scale maps, replacing the previous delineation by landmarks. It remains, illegal, however, for anyone in the private sector to keep such maps because of their supposed military value. Last year a surveyor was jailed briefly for this offence, Mr Esmer said.

Miners are also unhappy that they are paying into the Government's new mine finance fund, even though no regulations are in place for disbursement of the money.

Meanwhile, the main public sector mine developments are making slower than hoped-for progress under the supervision of Etibank, the state bank responsible for the sector. All the projects were initiated before the new mine law was passed.

"Foreign partners have taken longer than we expected to assess the deposits and Turkey's investment climate," said Mr Bilgin Kaynar, director of Etibank's projects implementation division.

Both domestic and foreign mining companies remember the industry's nationalisation in 1978 by the then socialist government. Thus, given the long time-frame for mine development, foreign investors have indicated "from time to time, worries about a change of government at the 1988 elections," a senior government official said.

Of the four largest Etibank projects under investigation, the most advanced is the Cayeli copper prospect at the eastern end of the Black Sea coast. A feasibility study was recently completed and a decision on an investment of some $100m could be made by the end of the year. The partners are Phelps Dodge of the US (49 per cent), Etibank (45 per cent), and Gama Endustri of Turkey (6 per cent).

Dr Suha Nizamoglu general manager of Etibank

Exploration work is under way at two other projects: the Siirt copper prospect, near Lake Van in Eastern Turkey, in which Preussag of West Germany is Etibank's main partner, and the chrome prospect in the Bursa area of North-west Turkey, in which Egemetal of Turkey (40 per cent) and Bomar resources of the US (20 per cent) are Etibank's partners.

Etibank has signed a framework agreement for a natural soda mine at Beypazari, near Ankara. It has taken a 35 per cent stake; FMC of the US also 35 per cent; and the IFC subsidiary of the World Bank, 10 per cent. Etibank is still trying to attract Turkish private sector investors for the remaining 20 per cent. A second round will not be completed before mid-1987.

These projects were part of a group of seven which Etibank tried to initiate. Two have quietly fallen by the wayside. Etibank wants to see the five live prospects develop further before it offers a second round of prospects to foreign and domestic investors, Mr Kaynar said.

Exploration work is continuing, however, under MTA, the state exploration agency. It is looking particularly for chrome deposits, because price and demand have risen markedly in the wake of political unrest in South Africa, the world's leading supplier. Turkey's existing deposits account for about 5 per cent of world chrome reserves, said Mr Kaynar.

Turkey also needs more deposits because it is trying to benefit from further processing of the mineral. The Government is tripling the capacity of its plant at Elazig to produce 150,000 tonnes of ferrochrome a year. When the expansion by Elkem of Norway is completed, late this year, the plant will take about 500,000 tonnes of chrome ore a year, which is roughly the volume Turkey exported last year.

MTA is also looking for nickel and manganese, the latter so that local industry can upgrade to ferromanganese. But Turkey's mineral potential remains something of an enigma. Consequently, MTA's exploration expertise is criticised by many in the private sector.

"MTA is good at core drilling, but I don't believe it is using satellite and computer technology for general exploration," said Mr M. S. Ozel, president of Bilfer Mining, Turkey's largest private sector mining company.

Until better geological and physical maps are completed by the Government, the sector will be hobbled, he said. Furthermore, MTA must be more willing to share its knowledge. It refuses, for example, to disclose reserves data gathered at one of Bilfer's mines during the 1978-82 period of nationalisation.

Despite current obstacles, Bilfer remains optimistic about the sector's longer-term prospects and is actively pursuing foreign partners to help it develop its deposits of chrome, asbestos, iron and other minerals.

The question of Turkey's true mineral potential draws disparate answers. Optimists say vast deposits await discovery. Pessimists says many prospects are at best only marginally economic.

But perhaps the truth is that Turkey is "rich in small scale deposits of low-value minerals," Mr Ferid Kromer, an Ankara consulting mining engineer, wryly suggested.

The country will never know, however, until it implements properly the new mining law and improves its exploration methods.

Rod Oram

Textiles

In the world's league of top exporters

EXPORTS OF Turkey's top 40 textile items last year reached $1.5bn. For over a decade, as result of investment during the 1960s and 1970s, textiles has been the country's most internationally competitive industry—an achievement ironically recognised in decisions by the EEC, the US, and latterly Canada, to slap restrictions on Turkish textile exports.

Not all of the sector is strong, *however*. Turkey's *most* effective textile producers are mostly medium-sized private firms, turning out medium-quality goods for export. The country's largest producer, *remains* the state-owned Sümerbank, set up in the 1930s and for many years badly managed.

A new general manager brought in by Mr Ozal, Mr Erkan Tapan, is now trying to restructure Sümerbank prior to its possible privatisation. His achievements are hailed by most private-sector managers, but one of them says: "Mr Tapan has a lost cause on his hands. The assignment is too difficult."

A manager in one of the country's upmarket textile firms adds that it is most unlikely that the Sümerbank's ageing plant and machinery will ever be attractive prospects for sophisticated private buyers.

Complex problems

Sümerbank is not the only Turkish textile concern in difficulties. Several major producers, such as Güney Sanayii and most recently Paktas, have had to be rescued by the Government. Poor management, under-capitalisation and ill-timed purchases of foreign technology are cited by textile managers as root causes.

"They made every mistake in the book," says one manager. "They could be used as textbook cases for management students of what *not to do*."

The Ozal government seems to have pressed ahead with bids to salvage firms like Paktas, in order to avoid having to lay off large numbers of *workers*.

"This is not a good solution," says Mr Kudret Yazgan, of Bozkurt Mensucat, a vertically-integrated textiles producer belonging to the Koc Group. "Apart from anything else, it means unfair competition for the efficient producers if TL14bn of government money is channelled to firms that would otherwise not survive."

Below these ailing giants, however, come firms with the industrial muscle that has pushed Turkey into the top league of the world's textile exporters. Most are specialised producers, *aiming* largely at Western export markets. Though labour costs are well below those of the advanced industrialised countries of the West (Mr Halil Bezmen, of Mensucat Santral, a bedsheet and interlining producer with a consolidated turnover of $70m a year, estimates that his labour costs are between a sixth and a ninth of *those of* his Western competitors) a continuous flow of investment is necessary. Mensucat Santral invested $10m in new equipment in 1984 and $13.5m last year.

Bozkurt Mensucat invested $12m in 1984. With interest rates still soaring above 60 per cent inside Turkey, textile firms tend to borrow abroad when investing. Mr Bezmen uses one-year credits from foreign banks such as the Hong Kong and Shanghai or the West German Kommerzbank.

Even so, most quality Turkish producers tend to feel that investment by itself is not enough. Apart from taking obvious moves to cut labour costs and step up the use of labour-intensive technology, several are now exploring opportunities for partnerships or joint ventures with foreign firms.

Akin, an Istanbul-based printed material producer, says it has been approached by an un-named international textile producer seeking a partnership in the past year. Mr Bezmen says he is interested in joint ventures for terry towelling and non-woven interlining production.

Billboards across Turkey this spring have been proclaiming one new alliance—that between Altinyildiz, Turkey's top fashion producer, and Benetton *of* Italy, *whose* clothes are expected to make a strong appeal to better-off young Turks.

There is also increased emphasis on research and development. Istanbul's Mamara University now co-operates closely with leading textile firms, *sending* students on sandwich courses and offering advice on technical problems to firms.

The *general feeling seems* to be that Turkey's textile industry could easily improve on its present performance. "We are medium-quality producers," says Mr Yazgan, at Bozkurt, "but we have *the capacity* to shift to high-level products with some changes such as education transfers from western countries. The present overall level of $1.8 to $2bn in *Turkey's textile exports could* be doubled fairly easily with more technology and knowhow."

Mr Yazgan believes that western clients would ally themselves with Turkish producers *to ensure* access *to* markets in Western Europe and North America, where Turkey is battling with textile quota restrictions.

Turkish producers have three *different patterns* in *marketing* their goods. In the UK, they work through agencies. In the US, they tap the services of agencies, importers and producers, depending on the quality of the *export*. In *other* EEC countries, they deal directly with the buyers. Most rely on international market research reports, not just for their marketing strategy but also when planning investment.

Inside Turkey, retail chains exist, but the advent of Benetton is expected to trigger major changes, forcing some of the more *sedate* chains to improve their quality and marketing strategy. "We need real chain stores in Turkey," say an Istanbul garment producer, "like C & A or Marks and Spencer and Selfridges."

David Barchard

Motor Industry

Imports overcome tariffs barrier

TURKEY'S MOTOR industry will pass two important milestones this year. It will break its 10-year-old production record, and the millionth car will take to the roads.

But there's a one-in-five chance that that car will be an import, indicating the growing pressures on the cossetted 20-year-old domestic industry. Under the Ozal government, car imports are unrestricted if customers are prepared to pay tariffs and surcharges, which can more than double prices compared with domestically made cars.

Despite this hurdle, the number of important cars has risen from 4,000, in 1983, to 12,000 last year; while domestic production rose from 43,000 to 60,353.

Although there is a two-month waiting list for some domestic models, a growing number of people are prepared to pay for higher quality. Local cars are also less attractive, because three out of the four models offered date from the 1970s.

This competition pits, for example, Otosan's recently launched Ford Taunus 1.6GL (a model superceded several years ago elsewhere in Europe by the Sierra) at TL 4.3m (£4,300) against TL 8m for an imported Audi 80.

The Government believes the local industry needs this exposure to foreign competition in order to force it to raise its standards. Thus, despite capacity utilisation of only 64 per cent last year in cars, and about 40 per cent in trucks, it approved plans for local assembly of Isuzu trucks. Also, it is thought that a Japanese car assembly licence is under negotiation.

The problem was exacerbated by a flood of 5,000 second-hand semi-trailer trucks and 3,000 buses which the government allowed into Turkey in 18 months up to mid-1985, estimated Mr Tunc Koman, managing director of Man Motor, the diesel engine manufacturing joint venture between the West German engineering company and Ercan Holdings of Istanbul.

These imports have largely dried up, because the second-hand vehicles proved less reliable than new ones, and because German bus operators started asking too much for their old vehicles. Nonetheless, the stock of such buses in Turkey will overhang the market for two or three years, Mr Koman believes.

Overall last year, the Turkish motor industry suffered a sharp decline in semi-trailer truck, bus and farm-tractor production, resulting in a 2 per cent slip in total production to 135,258 vehicles compared with 1984. A 10 per cent increase in car production and a modest rise in other trucks and pick-ups prevented a worse downturn.

Capacity utilisation last year ranged between 70 per cent, for minibuses, and 29 per cent for tractors, the latter reflecting a steady fall in farm incomes. A modest improvement in some sectors this year underpinned by rising car production should break the record of 67,000 cars made in 1975 and 146,000 for all vehicles set in 1976.

Some people in the industry worry, though, that this growth cannot stave off the inevitable shakeout of the nine tractor makers, which produced 37,630 vehicles last year, eight bus makers (11,225) and three car manufacturers (60,353).

On their fortunes ride a well-developed Turkish components industry, which typically is able to supply about 85 per cent of the content of a Turkish car and 90 per cent of a tractor.

The parts-makers, at least, have a better chance of exporting to survive, according to Mr Coskun Yesin, general manager of Hema Gear Industry and Trade, which makes transmissions and differentials under licence from Eaton of the UK.

It started production in 1980 with the capacity to make 25,000 truck gearboxes, 25,000 differentials, and 65,000 sets of tractor gears a year. But the domestic market has failed to live up to forecasts.

Consequently, Hema operated at about half that rate last year. It suffered an additional setback when the liberalised imports regime enabled Spicer of the UK to take half the market for truck differentials, in which Hema had had a monopoly. It lost about TL 2.5bn last year on sales of TL 20bn.

To broaden its product base, Hema is just completing a US$ 3.5m investment in machinery to make gears for cars and pick-up trucks. But exports is the overall key, and Mr Yesin would dearly love to repeat Hema's success in 1983-1984 when it shipped 1m farm tractor gears worth $25m to Ford in Antwerp.

Hema is also "learning to manage money and materials better." It is installing a $300,000 Hewlett Packard system to computerise paperwork in manufacturing and administration. It is thinking of cutting costs by, for example, importing some raw materials such as steel forgings from Hungary.

Pay rose by only 35 per cent last year when inflation ran at about 45 per cent. A skilled machinist earns about TL 700 (70p) an hour in a 45-hour week, although bonuses and social benefits push up total employment costs by about another 80 per cent.

Mr Koman, of Man Motors, tells a similarly grim story of a battle for commercial viability. The company was set up in 1982 at a cost of DM 100m., benefitting from incentives such as tax-free imports of machinery without which the invesment would have been double, he believes.

His plant has the capacity to produce 8,000 diesel engines a year, ranging from five-cylinder 190hp to 12-cylinder 700hp models. Output was 1,300 last year, with 3,000 engines planned for this year.

Currently 90 per cent of the engines are for Man trucks and buses made in Turkey. Mr Koman hopes to increase his work-load by diversifying into third part customers and new markets such as marine engines.

He is also battling against a sharp rise in the Deutsche Mark against the Turkish lira on his imported components. In its two years of production, the plant has worked up from assembly of German engines to 50 per cent local content. The goal is 70-75 per cent.

Despite all these efforts, Man Motor, Hema and other companies remain deeply concerned about the Government's lack of strategy for the motor industry. Without a strategy Turkey will most likely badly damage the expertise it has developed in the sector, they fear.

Rod Oram

The Otosan car plant at Kadikoy, Istanbul, where the Ford Taunus is produced

Transport

Miles behind other countries

IN TERMS of motorways, Turkey is virgin territory compared with Europe.

In spite of the long distances—over 1,700 km from the Bulgarian border in the west to the Soviet Union in the east, and almost 1,000 km from the Black Sea to the Mediterranean—there are fewer than 100 km of motorways.

"This is tiny compared with the size of the country," says Mr Nurhan Karahan, deputy general director of the state highways directorate. "We are way behind other countries."

A few short stretches are under construction, but these are miniscule compared with the Government's ambitious plans to have 3,000 km of motorways by the end of the century and an eventual network of 10,000 km. "Motorways are of the utmost importance for the country," says Mr Karahan. "We are not building them for prestige but because of the country's needs."

The biggest project is for Turkey's 3,600 km share of the 10,000 km Trans-European motorway (TEM), which will pass through ten countries. Originally, there was a target date of 1990 for completion, but economic difficulties have delayed that by about a decade.

The Turkish Government intends that its share shall be financed by foreign credits on which the Government—which will receive the motorway toll income—will guarantee payments. Foreign contractors, including the unsuccessful bidders for the second Bosporus bridge, have been invited to tender for individual stretches in joint ventures with domestic companies.

"We gained some experience from the Bosporus bridge," says Mr Karahan. "No contracts have been signed, but there are negotiations."

Letters of intent are reported to have been received by, among others, Balfour Beatty of the UK and Entes; Bechtel of the US and Enka; Skanska of Sweden and Kutlutas; and Tekfen.

The second Bosporus bridge, with its associated motorways, is itself an integral part of TEM. Work had hardly started on the bridge—it is scheduled for completion in 1988—than there were schemes for a third crossing which, Mr Karahan says, will be needed by the turn of the century.

Feasibility studies are being carried out and Bouygues, the French construction group, is reported to have had preliminary talks with the Istanbul municipality for a $550m rail tunnel, which would link with the city's planned metro system. ASEA of Sweden is the lead partner in the consortium for the light rail transit network, which will have 21 stations.

Apart from the motorway projects, there are schemes for substantial spending under the state transport master plan for 1983-1993, to asphalt and upgrade highways, modernise the antiquated railways and extend port facilities. In this year's capital investment budget, transport and communications are allocated a third—easily the largest share.

The master plan is now being revised to take account of changed circumstances—especially the growing number of cars (there are about 1m), the greater import-export traffic and heavier axle-loads. Priorities include improvements to the congested Istanbul-Ankara road and a trans-Turkey highway, for which there are World Bank loans.

"Because the motorways are tolled, we have to provide other roads for free passage," says Mr Karahan. "These contracts are open to foreign contractors because we borrowed from the World Bank."

There is scepticism, however, over the speed at which the master plan can be put into effect. Last year, the Government deferred indefinitely most of the rail construction designed to cut the journey time between Istanbul and Ankara. "The transport master plan is a utopia," says Mr Saffet Ulusoy, chairman of the Turkish International Transporters Association. "The bureaucrats are nice people, but their desks are too remote from reality."

The association is lobbying for greater spending on roads. It points out that, whereas in the past the great majority of goods to and from Turkey have been carried by sea, the balance is changing rapidly.

It says that in 1984 road haulage carried 37.5 per cent of exports by tonnage and 50.9 per cent by value. Last year, the international land fleet carried 13m tonnes of cargo—of which a quarter was transit cargo to Iran and Iraq—and earned $706m in foreign currency.

The association says it has grown enormously since the trade liberalisation after 1980. "We now have 552 members, all of whom have at least 10 vehicles. In the past five years, the international fleet has tripled to 18,000 trailers."

Truck movements importing goods from Europe rose from 40,000 in 1984 to almost 50,000 last year, with Turkish trucks accounting for 40 per cent, although a slightly smaller share of the bigger market. "Our border gates are now so open that Turkey is already a common market for Europeans," Mr Ulusoy says.

Against the broad canvas of growth, however, there is a picture of recent recession. Mr Ulusoy says that in 1985 there was a 5 per cent decline in Turkey's international transport compared with 1984 and, in the first quarter of this year, a 25 per cent slump. Some operators have gone out of business.

"We are trying to establish the reasons for this very severe recession," he says. "Turkey is a bridge between Europe and Asia, both concerning road transit traffic and transit from Turkish ports.

"The decrease of oil prices is really adversely affecting the oil countries' purchasing power. Then, most of the transit traffic was to Iran and Iraq, and the war is now five or six years old. Investment in both countries has come to a halt now."

Mr Ulusoy adds: "But in spite of all the problems, it should be accepted that Turkey is a leading transportation country. The border barriers should be lifted. This is Turkey—but it is also Europe."

Roland Adburgham

Construction

Peace should bring prosperity

TURKISH construction companies are nothing if not outgoing. When economic constraints at home caused a dearth of work, they looked abroad and especially to Libya. As that market deteriorated, they turned to other Middle East countries, notably Saudi Arabia. With the fall in the oil price restricting new orders, they now have another target in their sights: the eventual end of the Iran-Iraq war.

As and when the war is over, the contractors hope that the geographical proximity of the countries, the common Muslim identity and the existing commercial links will mean that they can win the lion's share of the reconstruction work.

This would come as a welcome stimulus. According to the Association of Turkish Contractors, new awards in the Middle East totalled $736m in 1985, the same level as in the previous year and well down on the peak of $5.5bn in 1981.

Saudi Arabia accounted for $387m of last year's orders, but that was a decline of $50m on the previous year. There were no new orders in 1985 from Libya which, according to the Association of Turkish Contractors in Libya, had accounted for 60 per cent of all overseas contracts over the previous 10 years.

The collapse in the Libyan market was caused by the drastic decline in the country's revenues as a consequence of the price fall and the US embargo. Libya delayed payments to constructors which, on one estimate, totalled $400m at one stage. Some contractors went bankrupt.

Turkish companies are still active in the country to complete projects. Mr Ozer Olcmen, secretary-general of the Association of Turkish Contractors in Libya—which has 40 member-companies, including some of the biggest, such as Enka and STFA—says some $2bn to $3bn worth of work is still in progress. There are 40,000 Turks working in Libya, although this compares with over 100,000 three years ago.

In autumn last year, there were government-to-government negotiations to resolve the late payments issue by a barter scheme under which Libya would pay Turkey in oil and the contractors would receive their money from the Turkish central bank.

Mr Olcmen claims: "We don't have any payments problems now." He adds that three of the association's members have been offered new projects this year.

Some companies are less sanguine.

"What I think everybody wants to do is finish their existing jobs and get out," says one director. "Except, that is, for adventurers."

One large construction company which never became involved in Libya is Tekfen of Istanbul.

"We are very conservative," says Mr Tahsin Sagisman, its secretary-general. "When others jumped in, we wanted to see first whether they got wet or not. When we saw it wasn't quite the atmosphere we would like to work in, we stayed away."

Tekfen, instead, sought work in other Middle East countries. "Saudi Arabia was a very attractive market for us and still is despite the general slowdown of business—our own business there has increased," says Mr Sagisman. "We were recently awarded two major contracts, for a $60m pipeline and a $125m water and sewerage works."

Near the Yemeni border, Tekfen is engaged in building a $450m water distribution network with Saipem of Italy and a Lebanese company.

It is now casting its net beyond the Middle East—"The Soviet Union, Hungary, Italy, Malaysia—we are tendering and bidding everywhere."

Like other companies, though, it is also looking to the home market. "Every contractor is interested in getting contracts first of all in his own country. Abroad, we do not have an export credits insurance scheme which protects us against political risk, so it is normal we prefer to work in Turkey."

Tekfen, which claims never to have lost money on any of the 250 projects it has completed since it was formed 30 years ago, now has $1.4bn of work in hand equally distributed between home and abroad.

Mr Mufit Kulen, a civil engineering consultant in Ankara, says: "Most of the companies which became over-committed abroad are not in good shape. The companies which kept a balance between home and abroad have adjusted better than the over-ambitious."

Kiska, for example, has 10 big projects at present of which only two are abroad (in Saudi Arabia and Iraq). It is building a Nato airbase in western Turkey and a water mains system for Ankara.

That there is no shortage of similar projects is shown by the fact that some 100 dams are under construction—including the Ataturk dam on the Euphrates—and at least as many are being considered. The problem with the large infrastructural projects is the finance, but the need to obtain external credits means that international concerns are well placed to form joint ventures with domestic contractors.

"If anyone can bring the money to the table, they can get any volume of work in Turkey," says Mr Sagisman.

Foreign companies have been invited, for example, to participate in tendering for the pipeline to take Soviet natural gas from the Bulgarian border to Ankara and for the city's gas distribution system (which should reduce the city's air pollution from the burning of lignite). Earlier this year, a cofinancing deal with the World Bank was agreed for the $716m Kayraktepe Dam.

The great interest now is in the build-operate-transfer (BOT) formula proposed by the Government for projects like power stations, hydroelectric dams and even possibly for port extension and management. After initial scepticism, companies appear to be becoming more receptive to the idea, although some of the power station plans have now been delayed.

"I believe at least one of the projects on the Ozal formula will be realised by the summer," says one contractor. "It is becoming a formula on which the Government insists and, if you want a major job in Turkey, you will have to like this formula—whether you do or don't."

Roland Adburgham

Electronics

More offset pacts

TURKEY'S IMMATURE electronics industry, characterised by a clutch of fiercely competitive assemblers of televisions and videos, will take a large technological leap early next year when it starts making inertial navigation systems for F-16 fighter aircraft.

The work was made possible by the extensive offset agreements Turkey demanded from General Dynamics of the US to clinch the $4.2bn aircraft deal in 1983. At the other end of the technology scale, another offset project is the construction of a Hilton hotel in Ankara.

The navigation systems will be made under licence from Litton Industries of the US, by Aselsan, the state-owned defence electronics company, at a new plant near Ankara airport. Aselsan is also seeking foreign partners to make radar, fire control and other low-level air defence equipment at this, its second plant, Mr Hacim Kamoy, *its managing* director, said.

The company was founded 10 years ago with money from navy, air force and army foundations, which channel freewill donations from the public into defence development projects. Its main work so far has been battlefield communication systems, of which 40 per cent of products are Turkish-designed, the rest being made under licences from Philips of the Netherlands and Harris of the US.

About a third of its output goes to the Turkish armed forces, a third to exports and a third to civilian customers buying mobile radios and similar items. *Sales are set to* more than double this year over last to about TL 50bn, Mr Kamoy said.

Although Aselsan will probably keep a lot of the F-16 work in-house, its ambition to use up to 50 per cent local content could prove a welcome boost to Turkish component manufacturers, whose present products are well below state-of-the-art.

The industry is dominated by the assembly of relatively low-technology consumer products, according to figures from the *Organisation for Economic Co-operation* and Development. In 1983, consumer products accounted for 45 per cent of Turkey's electronics output, compared with an OECD average of 12 per cent. Telecommunications equipment represented 45 per cent (33 per cent in the OECD), components 9 per cent (17 per cent) and industrial equipment 4 per cent (38 per cent).

The Turkish electronics industry's annual growth rate of about 12 per cent in recent years seems satisfactory at first glance. But this has been achieved almost entirely through assembly of imported semi-knocked down television, video and radio kits, according to Mr Bilgin Ozkok, technical manager of Testas, a state owned company making electronic taximeters, tachographs and components.

The Government's liberal issue of licences for kits, which will bring two more television manufacturers into the market this year, has hampered the industry's development, Mr Ozkok argued in a recent paper on Ankara's approach to electronics.

Last year, 14 companies assembling 26 brands sold 1.13m television sets, although 90 per cent of the market was cornered by five companies. Ten companies assembled 140,000 video recorders. The industry's importation of 80 per cent of its components, by Mr Ozkok's estimates, indicates the sector's immaturity.

Yet Turkey has significant potential for foreign investors, because of its location, its technological base, and low wage rates. A recently-graduated electronics engineer earns about US$200 a month *against $275 by his South* Korean counterpart. A female Turkish assembly line worker's wages of about $120 a month are well below pay scales in Singapore, Taiwan and other Asian electronics centres, Mr Ozkok said.

Despite all these advantages, *the Government has only just* begun to talk to the industry about developing a coherent strategy, he added.

Improving research and development activities will be a crucial factor. One positive sign in Turkey's membership of the European Community's Eureka R and D programmes. *It is involved in four of them,* including development of robotics for the textiles industry and the next generation of microcomputers for schools.

Meanwhile, Turkish inventiveness will help keep the consumer electronics industry on the boil this year. Market research showed that few people ever recorded anything on their video machines, because of the high cost of tapes and the lack of programmes from state-run television.

Polly Peck, the British company with a major stake in Turkish consumer electronics, was the first to spot this, and launched late last year a player-only model to capitalise on the Turks' great appetite for video casette films. With other assemblers jumping on the bandwagon, these new models, costing half the price of full-function ones, could grab 60 per cent of the market this year, said Mr Maral Oztekin, general manager of Cihan Elektronik, which assembles Grundig equipment.

Cihan is optimistic that television sales will remain strong this year, helped by the Olympic Games, advent of a second television channel in the autumn and—further down the road—satellite broadcasts.

Some 60 per cent of Turkish households have television sets, but further penetration into lower-income families will have to rely heavily on consumer manufacturers and banks, Mr *Oztekin said.*

These relatively buoyant markets will not prevent a shakeout of manufacturers, which will see fully half of them fold, he estimated.

Rod Oram

Hacim Kamoy

Japan sets the style

Profile: Hacim Kamoy managing director of Aselsan

"DO YOU see anyone not working?" asks Mr Hâcim Kamoy, surveying the brightly-lit factory floor where row *after row of young women in* pink overalls are intently assembling radio components.

The question is rhetorical; Mr Kamoy knows he can walk into any part of Aselsan, the military electronics company on the outskirts of Ankara, and the answer will be in the negative.

Mr Kamoy, *the managing* director, is himself a daily visitor around the plant — usually two or three times.

The fast-expanding company, which employs 2,400 workers, had sales of TL 21.66bn ($32m) in 1985 and plans to double that this year. It was set up only 10 years ago by Mr Kamoy —"*myself and a doorman*" — after he had been approached by the defence forces, which provided the capital.

"An engineer from abroad came to see us," Mr Kamoy remembers. "Then another, and in the third week a team headed by the company's vice-president. We asked, why were they coming in waves? It transpired that the engineers' first reports were not believed.

The style of the company is obviously that of Mr Kamoy, drawing on long and varied experience. Now aged 64, he was at Istanbul technical university and won a scholarship to Durham university in Britain. Then he worked for GEC and, in the mid-1950s, he was appointed director of the overhaul shop for Turkish airlines (he is himself a pilot).

"I began with an empty hangar and a few technicians." In 1956, he joined the Turkish PTT and was then director of broadcasting development *before rejoining the PTT* in 1964 in charge of all technical work.

For two years, he was director of a textile company in southern Turkey. "I began with a two-room apartment and 500 acres. In one year we were producing yarn and in two years we were in full production." His approach was methodical. "When I arrived, there was a cocktail reception and someone gave me what I knew was a test because I was known not to be a textile engineer. In cotton, there are two ways of separating the seed and I was asked why we had chosen the method we had.

"The decision on the choice of machinery had been taken before I went there, but I had gone to libraries and read all I could. I gave the man a 50-minute lecture. After that, I was given no more tests."

Mr Kamoy describes the management at Aselsan as a "modified Japanese system." On the board there are five directors, for research and development, project technical assistance, marketing and *planning, production and finance.*

"We have one one-hour daily meetings as a group normally, plus three people acting as an executive committee," he says. "We talk about general ideas and about what's happening—everyone should know what's happening. It is a nice way of checking what they are doing and that everything is running to programme."

Labour unions are not represented at the plant and the annual turnover of staff, he says, is less than 3 to 4 per cent. There is a profit-sharing scheme for all workers.

"Everyone thinks he is part of the company and there is no distance between myself and even the youngest ones. In Japan, you stand by your workers. No one is worried about who is watching and everyone is busy with the work they are doing."

Mr Kamoy and his wife themselves live in a house at the plant. He sleeps for only five to six hours a night, takes just two weeks holiday a year and, on Saturday mornings, spends his free time in Ankara bookshops seeking out books on management.

"The problem in Turkey," he says, "is lack of management training."

Roland Adburgham

Energy

Changes for the better

THE CHANGE in Turkey's energy policy, signalled 18 months ago by Mr Turgut Ozal, the Prime Minister, seems likely to start paying off shortly.

His proposal, under which power plants would be built on the "build-own-operate" model by foreign companies, in joint venture with Turkish companies, initially provoked scepticism abroad.

The idea, designed to avoid the further accumulation of foreign debt, was at first greeted with concern, because of doubts about the price of electricity supplied by the plants, and thus about profitability. Government assurances since then appear to have dispelled concern.

Four power-plant projects are under consideration, using imported coal, and each would cost about $1bn. The front-runner, following a Swiss Government agreement to provide *SFr 710m (£253m) of* financing last month, would be built by a consortium led by BBC Brown Boveri. The second project, led by the US company Bechtel, *is also* planned for a site near Istanbul; and the third, in which an Australian consortium *is* involved, is at Iskendren. A fourth plant may be built north of Izmir by an Italian-French consortium.

The four plants would contribute more than 4,000 MW to Turkey's electricity needs, and officials believe that at least one project will get the go-ahead this year.

The decision to push ahead with the plants using imported coal *represents* a major change from Turkey's previous policy of building power stations using home-produced lignite. Seven proposed lignite plants have been postponed; and the Government appears to have accepted arguments, by *the* World Bank and others, that the economics of using high quality, imported coal at competitive prices, rather than the inefficient and polluting local product, have something in their favour.

Hydro-electric power is the second source of untapped wealth with which Turkey is *pushing ahead.* Three *dams* will eventually be completed on the River Euphrates—the Keban, which started operating in 1974; the Karakaya, due to be completed next year; and the giant Ataturk dam, planned to come on *stream in 1992.*

This scheme, which will also irrigate the Urfa plain, doubling *agricultural crops and provide* 2,400 MW of power a year, is designed partly to give a boost to the living standards of the poor region of Eastern Anatolia. Politicians are keen to claim credit for the project, but it is the *focus of political arguments* with Turkey's neighbours.

Amid reports of terrorist activity in the region recently, the question of supplies of water to Syria remains unresolved. Negotiations are continuing following a complaint from the Syrian Foreign Minister, diplomatic observers say. The flow of water is essential for Syria's own hydro power project on the river, but the Turks argue that supplies will be interrupted only while the dam is filling.

The dispute has meant that Turkey has had to manage financing for the $2bn dam by itself (with $430m in export credits from the Swiss), rather than ask for help from the World Bank, as it did with the Kay Karakaya dam.

A World Bank co-financing scheme has, however, recently been agreed for a $750m. Kayraktepe dam near Merin in the south, with the Japanese contributing Y23.4bn.

Nuclear power remains an *option for Turkey,* Mr Ozal confirmed this month, after the Soviet nuclear plant accident. Negotiations over a plant costing as much as $3bn have been going on with a Canadian consortium, AECL, and at present await a number of decisions by *the Canadian Government.* The plant would be built on the build - operate - transfer Ozal model, like the coal-fired plants.

Turkey has asked Canada for around $500m in export credits to back the project, and Ottawa must decide whether to amend regulations to allow AECL to make the investment. Financing from the Eurodollar market will also be necessary, and the project appears to be subject to some delays.

Turkey is forging ahead, however, in the oil and gas field. Although the oil price has fallen sharply, exploration is unlikely to be affected this year. The state oil company TPAO, which accounts for 23,500 barrels a day out of Turkey's total production of 45,000 b/d, made two small discoveries amounting to around 700 b/d over the past year.

It is pinning its main hopes, however, on a substantial secondary recovery operation at the Bati Raman oilfield. With $62m in aid from the World Bank, this project is going ahead and as much as 4,000 b/d is hoped for shortly. At its peak, feasibility studies suggest that Bati Raman could yield 40,000 b/d.

TPAO estimates that it can continue exploration economically at an oil price of $11 a barrel. All companies appear to be reassessing their options, but no attempts to renegotiate agreements have yet been received.

Some companies hope that the price fall may encourage the Government to change the "Decree 30" law, under which 75 per cent of the value of oil lifted from finds pre-dating 1979, goes *into a* Government fund. They feel that this fund, which must now have accumulated millions of dollars, should be used to help fund further exploration.

Progress has been made with Turkey's plans to make use of natural gas, both from its own reserves in Thrace and from abroad. A 300 MW turbine is in operation at a plant in Thrace, enabling Turkey to end electricity imports from Bulgaria.

Those from the Soviet Union are continuing, but Turkey has now signed an agreement with Moscow to install a natural gas pipeline which would link up with the Thrace fields and supply Istanbul and Ankara. Bids are expected to be called for the pipeline, costing around $400m, in the next month.

With a more clear-cut policy that seems to have won foreign confidence and a welcome rally in the oil price, the energy picture in Turkey now looks more optimistic and coherent. If doubts remain about some of the larger projects, they are not so much the fault of planners, but of circumstances outside Turkey's immediate control.

Maggie Ford

Telecommunications

End of a 15-year backlog

A PAIR of telephone wires stretching out across the arid Anatolian steppe to an isolated community or a state of the art digital exchange in teeming Istanbul represent equally well the top priority Turkey has put on telecommunications.

The goals of a 10-year plan which should have run to 1993 will be met in half the time under an ambitious acceleration ordered by the Ozal Government shortly after it took office. It realised that modern telecommunications were an essential ingredient for bigger and better industry and foreign trade, Mr Emin Baser, director-general of the PTT, said.

The lesson was driven home when business seeking an alternative to Beirut as a centre for Eastern Mediterranean trade turned to Athens, in part, because of Istanbul's then lamentable communications.

The four main goals which will be met by 1988 are:

- Elimination of current waiting lists for phones.
- Provision of phones to every settlement in the country.
- Automation of all exchanges of 30 plus lines.
- Provision of new services such as videotex, videoconferencing, cellular phones and packet switched data communications.

The task is enormous. Half a million people in Istanbul, some of whom have been waiting 15 years for a phone, will be added to the system over the next 18 months. This 65 per cent increase in phones will clear up the city's backlog and reduce the waiting list to new entrants only. The number of Ankara phones will increase by 50 per cent this year to 400,000 to clear up the capital's backlog.

In comparison, the rural picture seems effortless, even considering Turkey's terrain. Only half the country's 36,000 rural communities are waiting connection to the phone system.

The PTT added roughly 290,000 lines in 1985 to bring its total to about 2.5m. It will add another 720,000 this year and is looking at even faster growth.

But total investment of TL2,000bn (at 1982 prices) in the five years to 1988 is straining the PTT's finances, particularly since it has no intention of raising its tariffs. It owed one of its suppliers, for example, nearly TL10bn at the end of last year, equivalent to half a year's purchases.

The PTT is taking steps to ease this financial burden including offshore leasing of Turkish-made equipment, a switch to monthly from quarterly subscriber billing and the borrowing of about TL 150bn a year, one-third abroad and the rest at home.

In a practice Turkey is trying to adopt in sectors such as power generation, the PTT is inviting foreign investors to take on the full cost and responsibility of providing some new services such as cellular phones, packet switching data communications and radio paging.

On this basis the investor builds a system, operates it until the investment has been recouped and then hands it over to the PTT.

Virtually all of the main phone equipment is made domestically. The principle suppliers are NETAS, a joint venture between the PTT and Northern Telecom of Canada founded in 1967, and Teletas, a partnership between the PTT, Turkish investors and ITT of the US set up in 1984.

These two companies are supplying equipment from adjacent plants on the outskirts of Istanbul. NETAS has supplied 13 digital exchanges so far whereas Teletas put in its first in April. This was a European version System 12 exchange rather than the American type on which ITT has taken substantial write-offs.

Mr Baser said the first System 12 exchange is working satisfactorily and he expects no delay in the installation of the first exchange in Istanbul this autumn.

One of the main bottlenecks in the accelerated programme was wiring up subscribers, Mr Baser said. The PTT solved the problem in 1983 by allowing private contractors to do the work.

From NETA's point of view the rapid growth has caused some problems since there is more to setting up a new exchange than the making of the electronic equipment.

"One day it's a problem with buildings, another day power supplies or air conditioning," Mr Leslie Cox, NETAS chief executive, says. "But with a lot of goodwill and sweat we clear the roadblocks."

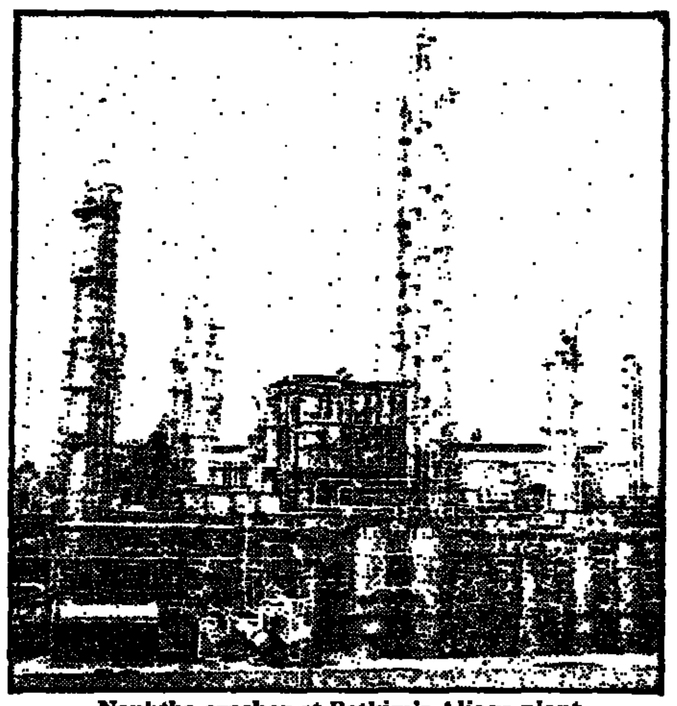
NETAS believes that the rapid investment will continue for years since Turkey could need 10 times the phones it has now. To help gear up for this, the company has developed locally a semi-electronic exchange with which it is tendering for a major rural project.

Similarly, it will soon be adding its own research facility to those in Canada and the UK involved in developing Northern Telecom's family of digital exchanges. At the moment, about 35-40 per cent of its manufacturing value of the Turkish exchanges and about 40-50 per cent of the engineering value is added domestically.

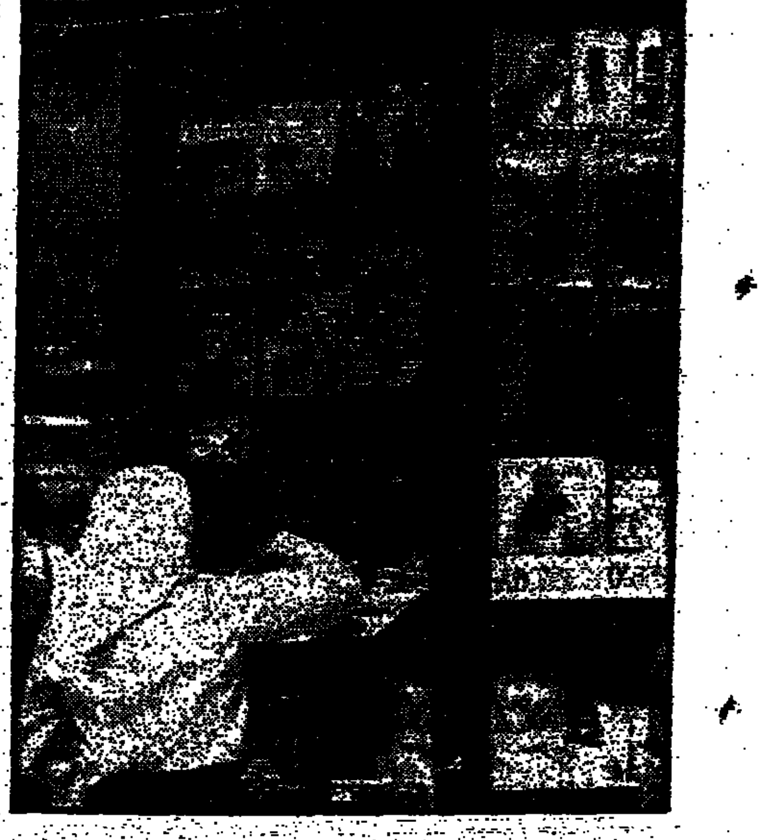
Higher technology has also played a role in improving the PTT's performance with installed equipment, Mr Baser says. Thus, for example only 0.2 per cent of phone lines now need repair at any one time, against 0.5-0.7 per cent a few years ago. New methods of repair mean also that a complex cable can be joined in a day rather than a week previously.

All these improvements are readily apparent to subscribers. Although one can wait a minute or more for a line during peak periods in Istanbul, connections are usually very clear even on long distance calls. It is a far cry from the frustrations of only a few years ago.

Rod Oram



Naphtha cracker at Petkim's Aliaga plant



Magazines like Playboy are sold in concealing pouches to avoid shocking Muslim women

The Press

Edging towards freedom

JOURNALISTS ARE winning ever greater freedom to report and criticise with a frankness unthinkable a year ago under the dying days of martial law.

"The press is quite lively these days," said Mr Hasan Cemal, Editor-in-Chief of *Cumhuriyet* ("Republic"), which is by far the most respected Turkish newspaper.

The turning point came last September, when the military eased up on the press in its stage-by-stage dismantling of martial law. *Cumhuriyet*, followed by other papers, began reclaiming old territory by reporting an unusually critical speech by President Kenan Evren. In it, he attacked Mr Suleyman Demirel, the right wing prime minister ousted by the Evren-led army in 1980, and Mr Bulent Ecevit, Mr Demirel's left wing predecessor.

Cumhuriyet, which stands to the left of centre, also carried equally harsh replies from Mr Demirel and Mr Ecevit, making it the first time in five years there had been a protest of this kind or that the President had been criticised. The newspaper suffered no direct repercussions.

Papers steadily pushed back the bounds over subsequent months, leading in April to *Cumhuriyet's* serialisation of Mr Cemal's book on the experiences of the press under martial law.

Freedom is relative, however, as *Cumhuriyet* is finding through the Government's exercise of considerable legal powers. Two cases are pending against its journalists for commenting on subjects before the courts, and one against a columnist who strongly attacked the President without mentioning him by name.

The last case, which prompted a protest from the International Press Institute, in London, will probably result, however, in the columnist's acquittal, Mr Cemal believes.

"I'm not feeling under any stress. We've had restrictive laws in Turkey for years and years. If the game is played according to those rules, the boundaries of press freedom are expanding," he said.

Because of these rules, journalists tend to remain somewhat circumspect, referring to the Kurds, for example, as separatists rather than by ethnic classification.

The Government acquired an additional form of control in March, through a new obscenity law. This was ostensibly aimed at pictures of nude women which the Government feared were corrupting youth.

But judgment is passed by an unelected tribunal of 11 men, with the power to levy exceptionally high fines. Journalists fear that the law could be applied in a different climate to a wide range of written as well as pictorial subjects.

The law is being contested before the Supreme Court, but brazen publications took no chances and became a bit more modest overnight. Thus *Playboy* went into purdah and is now sold in sealed opaque plastic bags decorated only with a discrete Bunny logo. Newspapers that once traded on vast expanses of flesh are struggling to find alternative ways to titilate their readers.

One wonders, however, what the tribunal will make of the continuing propensity of down-market papers to make up stories, and of a recent headline in *Tan* ("Dawn"): "woman with cleaver chops off 'thing' of man trying to rape her."

The newspaper market was fierce enough before the new law, with some ten daily national newspapers competing for a highly fickle readership. At the height of a circulation war last summer 3.7m papers were sold daily, but that slumped to 2.7m by the end of the year.

Consumer goods are the main promotion gimmick. Some are given away. For example, *Hurriyet* ("Freedom") gave away 52 cars in lotteries last year, Mr Ertugrul Ozkok, its publications co-ordinator said.

But vast arrays of goods are also sold on instalments by marketing subsidies owned by all newspapers except *Cumhuriyet*. The interest-free cashflow is a great boon in an economy where interest rates are running at about 70 per cent a year.

Newspaper profitability has been severely squeezed by frequent and steep newsprint price increases by the Government. Cover prices today range from TL 60 to TL 120 (6p-12p) compared with TL 20-TL50 a year ago.

Proprietors are also spending heavily on their second generation of computer equipment, which will take them into full page make-up on screens. The industry has long been at the for front of technology, printing in vivid offset colour, for example, since the late 1960s.

These costs and problems seem no deterrent to new entrants. Sabah ("*Morning*") started up last year as a down market newspaper aimed at men and has grabbed a daily circulation of 560,000, the third largest in Turkey.

But this fierce competition has certainly taken its toll of the journalistic quality of many newpapers. And even among those few papers such as *Cumhuriyet*, which have raised their standards, there remains a deep inability or unwillingness to analyse objectively the economic issues confronting the country, a journalist-turned-businessman commented recently.

Quality comes in different forms, of course. Some journalists point to the educational value of the publications that their newspapers distribute. And one journalist recalled a day last Ramadan, when he had to fight this way to the entrance of his office building through a crowd of thousands of readers clamouring for their copy of the Koran-by coupons.

Rod Oram

Petrochemicals

Luck on Petkim's side

TURKEY WOULD not seem an obvious country in which to build a large modern petrochemical complex.

It has no cheap local source of energy, unlike Saudi Arabia, whose new plants are just coming on stream. Its natural markets — Europe and the Middle East — are already, or shortly will be over supplied. World prices, in a market suffering from substantial overcapacity, have been low for several years.

And yet luck may be on the side of Petkim, Turkey's state-owned petrochemicals company, whose new plant at Aliaga, near Izmir, is now coming fully onstream.

The plant was built at a cost of $2bn, including $500m in foreign credits backing up licensing agreements with companies from the UK, Italy, Japan, France and Switzerland. The last credit, a government-to-government line from Abu Dhabi for $27m, was agreed just after the military coup in Turkey, in September 1980.

The foreign financing success proved something of an achievement for Turkey at the time, because the feasibility study for the plant had been done by Petkim itself, using the knowledge it had gained from operating its Yarimca complex since 1970.

The idea for the Aliaga plant developed when, even after extensions, Yarimca was unable to meet domestic petrochemical demand, much less try to develop exports.

Although foreign companies were initially suspicious of the Aliaga plan, Petkim was able to convince them of its competence. It also laid down a number of principles governing the awarding of licensing agreements. Companies were required to have a proven technological track record, to conduct some engineering studies within the country (thus transferring skill), and to provide competitive credit back-up.

The plant uses imported naphtha as its basic feedstock, and produces high and low density polyethylene, polypropylene, PVC, aromatics, ethylene and diethylene glycol, caustic soda and chlorine, and acrylonitrile for synthetic fibres.

It was commissioned in 1984, and has been coming on stream section by section ever since. About 20 per cent of the plant's production is exported, mainly to Iran and Iraq but also to the US and Japan.

Turkey's thriving textiles industry takes one third of the plant's production, and its synthetic fibres sections are running at full capacity.

The same cannot be said for the sections producing polyethylene (LDPE and HDPE), both of which are running at around 80 per cent of capacity; or of PVC (at about 35 per cent), or polypropylene (at 65-70 per cent). General petrochemical prices have fallen around 10 per cent recently, and no change is likely while oil prices remain low.

The fall in oil prices has however, worked in Aliaga's favour. The price to the plant of its naphtha feedstock has gone down from $250 a tonne last year to $190 a tonne now. Petkim buys the naphtha from an adjacent oil refinery at a price determined by the Turkish Government.

World market prices for naphtha have fallen as low as $100 a tonne recently, so the plant would be in a far more competitive position if it were allowed to buy its raw materials on the open market, in the same way it has to compete for sales.

Turkey's tariffs, of between 15 and 20 per cent on imported competing products, go some way to alleviate Petkim's problem, and this year it expects to make its first profit.

Part of the sales problem for Petkim at present concerns quality. The plant is designed to produce at the highest quality levels, so that those customers wanting lower quality at a lower price will tend to go elsewhere.

The plant itself was also built with an eye to quality as well as cost. Unusually, Petkim decided to be its own general contractor, partly to give local companies wide experience in big projects, partly to keep a close eye on costs.

Mr Ozcan Besergil, the complex manager, estimates that the plant cost a third of those recently built in Iran and Saudi Arabia.

Special care was taken with environmental and safety measures. A harbour was constructed, separating incoming raw materials from outgoing products, and the plant has facilities for cleaning all water discharged into the bay and for sewage treatment.

A special cable gallery was designed, in which the high voltage wires are enclosed in a concrete raised channel big enough to allow a technician to work inside. Compared with overhead or underground wiring, this allows quicker maintenance and better safety protection.

A new dam was also built to service the plant's consumption of 1.8 tonnes per second of water, along with a nearby company town, with schools, a hospital and leisure facilities.

This plant seems likely to be the last to be built under the old system before the "Ozal model" of "build, own, operate" by foreign investors comes into play. It faces a hard task to compete in such a depressed world market, although it is certain to do well locally if only for transport reasons.

If, however, it was able to buy raw materials at competitive prices, Aliaga's chances would improve greatly. It remains to be seen whether it will be allowed to put itself properly to the test.

Maggie Ford

Turkish Petrochemicals

Product	—Capacity ('000 tons per year)— Aliaga complex (commissioned 1984)	Yarimca complex (commissioned 1970)
LDPE	150	24.3
HDPE	40	—
Polypropylene	60	—
Vinyl chloride monomer	165	48.6
Chlorine alkali	75	32.4
Caustic soda	85	—
PVC	100	46.8
Ethylene glycol	69	—
Acrylonitrile	70	—
Pure terephthalic acid	70	—
Aromatics	321	—
Phthalic anhydride	30	—
Styrene	—	19.4
Polystyrene	—	13.5
Carbon black	—	30
Dodecyl benzene	—	20
Caprolactum	—	25
CIS polybutadiene rubber	—	13.5
Styrene butadiene rubber	—	32

Aliaga's naphtha cracker has a capacity of 300,000 tons a year ethylene, while Yarimca's can produce 55,000 tons year. Petkim also has a plastics plant at Cannakale, mainly producing for the company's internal use.

Trade Unions

Hope for relaxation of law

ALMOST SIX years after the military intervention in Turkey, the trade unions remain shackled by laws which not only circumscribe their rights to organise and strike but forbid political activity.

The weakness of the unions and their lack of effective sanctions has permitted the Ozal Government to discount their opposition to its economic policies, in spite of hardship caused by high unemployment, inflation and, for most workers, a fall in real wages. For the first time, though, there are possibilities that the Government may consider some relaxation of union laws.

A committee of the International Labour Organisation (ILO), the Geneva-based agency, is considering a response by the Turkish Government to criticism. (Turkey was a signatory in 1952 to the ILO convention on the right to organise and to collective bargaining.)

A mission from the ILO went to Turkey at the invitation of the Government to discuss law changes with the Ministry of Labour and employers' representatives. Mr William Simpson, a member of the mission, says the authorities had been co-operative.

"I have rarely seen a government so sensitive about its international image," he says.

That image suffered badly after the military takeover when union activity was not only suppressed but many unionists arrested. There were allegations of beating and torture. Disk, the militant left-wing union confederation, was suspended and at one stage 52 of its members faced the death penalty. A total of 1,447 people were charged.

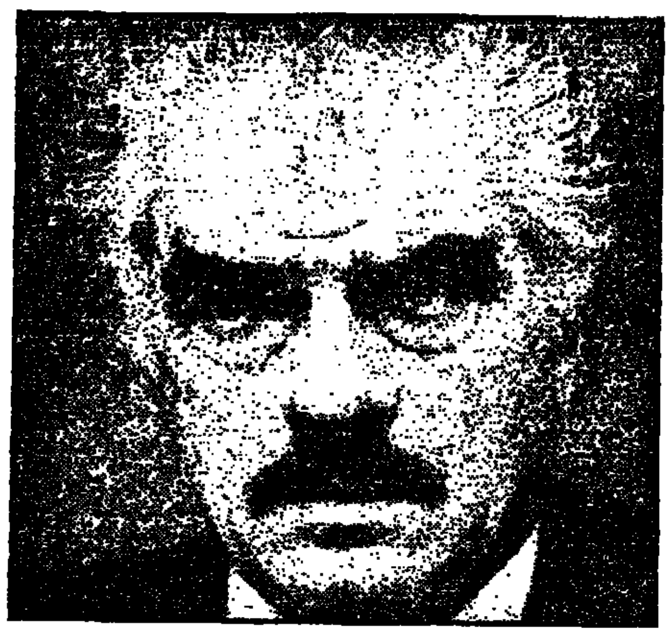
Restrictions were not eased by the laws 2821 and 2822 passed in 1983 on collective bargaining, strikes and lock-outs. To have the right to represent workers, unions must have at least 10 per cent membership within an industry and 50 per cent at a particular workplace. As a result many wage awards are imposed rather than negotiated.

"The 1983 laws are a reaction to what happened before the military takeover" (when there was a record number of strikes in an atmosphere of political violence), says a labour observer. "The Government still has a phobia about that and it will go on for a long time."

The death charges against Disk members have been dropped, and all have been released from prison, but some trials are still continuing. The leisurely pace of the proceedings is interpreted by left-wing unionists as a reminder to keep in line.

"Disk was just a militant union—it had nothing to do with terrorism but it was itself a target of terrorism," one of the accused claims. "The trials have been used as a pretext to threaten and frighten people."

Disk remains suspended, with its considerable assets in the hands of a court-appointed trustee. With its 36 affiliated unions, Turk-Is is the largest confederation in the country.



Sevket Yilmaz, the charismatic president of Turk-Is

It claims to have 1.9m members, or about 60 per cent of union members. After the military clampdown, it was allowed to resume activities and has been accused of too-ready compliance with government policies.

"Turk-Is was more than twice the size of Disk but it had no effectiveness, neither politically nor as union leaders," claims a former Disk researcher. "There were no protests when the trials began—at times it sided with the military."

Mr Sevket Yilmaz, the charismatic former miner who is president of Turk-Is, denies that it has been acquiescent. "Turk-Is and its affiliated unions have made every attempt to protect free trade unionism and its principles in Turkey," he says.

"We are trying to implement everything we can while staying within the law."

He accepts that this is subject to severe limitations. There can be no general strike in Turkey and strikes are also banned for state white-collar workers such as teachers, and state officials such as police. Sectors which cannot strike have been extended to include coal mining, electricity, gas, water and transport.

Apart from legal restrictions, there is strong opposition to unions from many employers, who prefer a more paternalistic approach.

"There is a problem of union organisation," says Mr Yilmaz. "A worker who wants to join has to go through a notary and the employer is informed immediately. It is a big problem for members to join unions, especially in the private sector, and the Ministry of Labour audits the unions, which puts political pressure upon them."

A labour adviser says: "Only the second generation is at work in the factories and they are not yet convinced of the trade union weapon.

"Lacking that, Mr Ozal realises there will not be serious challenges."

Even so, Turk-Is membership is increasing and the pressure for more militant activity to protect living standards is rising. Turk Harb-Is, the defence workers union, has threatened industrial action at US-run bases where it has 4,200 members employed on maintenance.

Minimum wages in manufacturing industry are as low as $40 net a month and, for cotton workers, $2 a day. The wages are set by a tripartite committee of Government, employers and unions.

Mr Yilmaz says: "Employers and Government can come together very easily and outvote us. The Government and employers say the wage should be based on the needs of the person who works. But it is never enough for a whole family."

Turk-Is has held rallies in protest at Government policies and there are plans for "silent marches" in some cities this summer. Sceptics claim that this is more to mollify the workers than to put pressure on the Government, although they agree that Turk-Is is making more vociferous demands for labour reforms.

"The Turk-Is leadership realises that its rank and file is not very happy with it and is suffering from the fall in real wages," says a union observer.

The Turk-Is leadership faces a crucial test in December when it will be up for re-election at the confederation's first congress for three years.

"The delegates will have to consider tactics to deal with a government that shows no propensity to deal with the unions," says a labour organiser.

Mr Yilmaz says: "I try to emphasise that the existing laws in the labour movement are not good enough for workers' rights. If the Government believes in free trade unionism and wants to have better living standards in Turkey, it can make the necessary changes."

Some observers believe the Government will make minor concessions before the Turk-Is congress, either through pay awards due for 700,000 public sector workers or through legislative amendments. This would be partly to reassure international critics that progress was being made, but also to strengthen the hand of the existing Turk-Is leadership and outflank the more militant unionists.

"If the Government maintains very restrictive legislation, it may push the unions towards illegality," says a union observer. "It would be very astute politically to liberalise a little bit more."

Roland Adburgham

Returned migrant Recep plays with his children in an Ankara suburb

Migrants Returning from Germany

Back to school for adjustment

RECEP, ADNAN, Ahmet and Esin are four Turks belonging to families recently returned from Germany. It is unlikely, however, that if they pass in the street they will realise that they have anything in common.

Recep and Adnan went, at the age of 16, to Stuttgart to join their father, and worked in a metal smelting factory.

Though they learned fairly fluent German (unusual among first-generation migrants) their time in Germany had little impact on their lives. Their women wear traditional Anatolian head-dress and costume. They live in an extended family group, in a shanty-town cottage, or "gecekondu" as the Turks call it, on the edge of Ankara.

Ahmet and Esin went when he was 24 and she 20. He had just qualified in Ankara as a doctor, and worked in the hospital of a small town south of Frankfurt. They now live in a middle-class quarter of Ankara, and send their four-year-old daughter to the German Embassy creche.

Though Ahmet went to Germany with many hostile preconceptions, widespread among Turkish intellectuals (he is still a reader of the left-of-centre daily *Cumhuriyet*), he and Esin returned well satisfied. "We never felt any real xenophobia," they say. "We lived in a small community and were very happy. Possessing the title of doctor was important, of course."

Ahmet admires many things German, particularly the ability to order things and obey rules. "If you live in a foreign country," he says, "you have to learn what its rules are and stick to them. We did that in Germany and we never had any problems."

He and Esin say they returned home basically because their daughter was approaching school age, and they would have to make a final choice about whether they belonged to German society or not.

"And I must admit," says Esin, "that I didn't think things would be so easy for our daughter when she got into school. "Türkenkind" (Turkish child) is not said in a friendly way. I was worried about whether she could fit in."

Recep and Adnan seem to have felt that they could never fit into German society, though initially both made efforts to learn the language; and they remain friendly with their teachers, writing letters to them and inviting them to Ankara."

Unlike Ahmet and Esin, who, like most upper-middle class Turks, were not religious and have no scruples about eating pork, Recep and Adnan were not prepared to compromise with German customs.

"No matter how hard we try to get on with the Germans, it is impossible, because our traditions, customs, and way of life are quite unlike theirs," they say.

Both brothers had lived in Turkey until they left school in their mid-teens. Their family — by then living in Germany but keeping them in Turkey, because it was cheaper — may unconsciously have condemned them to failure as unqualified workers in an alien society which sets great store on training and education.

"When we arrived," say the brothers, "we didn't know what our rights were. When we found out and tried to claim them, we immediately came into conflict with the Germans." They claim that they were paid at lower rates than German workers and sometimes discriminated against by being forced to work with Greeks. They also claim that the German police are harder on Turkish workers than the rest of the population, searching houses or detaining Turkish workers arbitrarily.

A litany of similar grievances has been portrayed in a recent TV series in Turkey called the *Mardin-Munich Line*, which German officials regard privately as anti-German propaganda.

Though West Germany has not permitted labour migration since 1973, and the number of foreigners working in the country has dropped from 2.6m in 1973 to 1.7m in 1984, the numbers of dependants has risen during the same period from 1.9m to 2.3m.

Turks tend to have a higher unemployment rate, about 18.5 per cent, compared with a national average of 8.9 per cent and an average for foreign workers of about 15 per cent. The difference is usually attributed to the limited educational qualifications of migrants like Adnan and Recep.

There seems little doubt that, even if middle-class individuals such as Ahmet and Esin fit well into German society, lower-class migrants usually do not.

"There are various reasons for this," says Ahmet. "The religious factor is obviously one. Another is that many Turkish migrants are from the least developed parts of Turkey. Forget about German—they can't speak good Turkish. They tend to be conservative and refuse to adapt. But there are plenty who do, and who you might not realise are migrants. But too many stay in little colonies and refuse to mix and do not encourage their children to go to primary school. Those who do help their children get education do strikingly better."

Ahmet says that Turks in Germany are sometimes too quick to claim discrimination. "I would be on night duty, and the police would bring in a drunken driver who had smashed up four cars. He would see me and start telling me in Turkish . . . 'abi, they are doing this because I am a Turk.' They did not seem to understand that if you behave like that in any country the police will arrest you."

Adnan and Recep say they had no problems in re-adapting to Turkish society—and psychologically they appear never to have left it. Ahmet and Esin say it took them several months to adjust.

Mehmet, a driver in Istanbul, says: "I found Turkey very authoritarian when I came back. The individual seems to have no rights here, compared with Germany. I went through several months of bitterly regretting my decision to come back. But it's okay now. I have learned how to fit into things here. But I still read *Bild Zeitung* to remind myself of Germany."

He is typical of younger migrants who have returned after spending their childhood or teenage years abroad. Worried about the "unTurkish" habits such returnees might bring with them, the Government set up "adjustment schools" in 1984. At these, young Turks, back from Germany, are given a course in national customs and traditions, ranging from honouring the national anthem and the flag to Turkish ideas of decency and comportment.

They have been greeted with enthusiasm by the Turkish press—which has long discouraged workers from being assimilated too fully in Germany, lest they lose their Turkishness—but they have not had much visible impact on most of their pupils.

Ahmet, in fact, says that one of the chief gains of his time in Germany is that it freed him from a "naive brand of nationalism" and enabled him to see Europe's problems in perspective. "And we made a lot of friends," he says.

David Barchard

Population

Birth rate will continue to rise

WHEN THE Turkish republic was formed in 1923, only 13m people lived in the war-depleted country. Such was the official anxiety that there were bonuses and medals for large families. Preliminary estimates of the 1985 census show the population is 51.4m and it is expected to reach 70m by the end of the century.

The anxiety now is too much rather than too little growth. It has climbed from just over 2 per cent in 1980, to an estimated 2.8 per cent in the latest census. But the 1980 figure, taken at a time of political turmoil, was probably too low and the 1985 figure may be too high. Even so, the rate is still above 2 per cent — or more than 1m extra people a year.

Although the population density is still less than a third of the UK, the rapid increase is putting heavy pressure on infrastructure, schools, housing and employment. With about 20 per cent of the workforce unemployed, Turkey can no longer rely on exporting surplus labour (more than 1m work abroad but the number has stabilised).

The highest birth rates are in the rural east and there is a continual migration to work in the cities. In 10 years Ankara has tripled in size to almost 3.5m and Istanbul has grown from 1.75m to 5.8m. More than half the country's population now live in towns.

Official concern has been slow to materialise. It was not until 1965, when the population was 31m, that contraception was legalised, and abortion and sterilisation were banned until 1983. Successive governments have fought shy of making family planning an issue, fearing it to be too controversial although it is permitted by the Islamic religion.

In 1969, a World Health Organisation seminar in Ankara on birth control was broken up by protestors.

"Extreme rightists say we should have 100m people. Extreme leftists say there is a western imperialist plot—the Americans are trying to restrict the population," says Mr Engin Ural, secretary-general of the Environmental Problems Foundation in Turkey.

"But decision makers should be brave enough to be realistic. For the sake of our country we should control this growth."

One political factor is that, should Turkey apply to join the EEC, there might be opposition if the country is likely to dominate through the size of the population.

The Institute of Population Studies at Hacettepe University in Ankara says there has been an increase in the use of contraceptives. A 1983 survey showed that nearly 62 per cent of married women used some method, although more than half were traditional and unreliable methods.

"Many women want to have only two or three children," says Professor Dr Ergül Tunçbilek, the institute director. "Because of the lack of contraceptive services they will have three or four more than they would like."

There has been a small decrease in fertility but not as big as expected. On average, a married woman aged between 45 and 49 has had no fewer than 6.84 completed pregnancies, of which 1.17 were aborted or stillborn.

In rural areas, women have two more pregnancies on average than women in cities; and in eastern Anatolia, women have more than nine children on average.

The population will double in 33 years, Prof Tuncbilek says: "We may have enough food but not enough industry, schools, hospitals and health facilities.

"Nearly 40 per cent of our population is below the age of 15. It is impossible to stop the increase because of the very young population."

President Kenan Evren—who says flatly that population growth is too high, helped to launch a contraception campaign backed by the Ministry of Health and Social Welfare. Over the next two years, the state radio and television will run regular items on family planning and mother and child welfare.

The family Health and Planning Foundation, formed four months ago with support from industrialists, is helping to set up projects like clinics at factories and hospitals.

There have also been campaigns to encourage immunisation and to curb gastro-enteritis in babies. Turkey's high rate of infant mortality—more than 100 deaths per 1,000 compared with 16 per 1,000 in neighbouring Greece—is blamed on bad hygiene, contaminated water and lack of proper feeding. In rural Eastern Anatolia, nearly a quarter of children die before reaching adulthood.

"We have to convince people that if they take good care of their kids, they will not die," says Mr Yasar Yaser, director of the Family Health foundation.

Mr Yaser accepts that the implementation of the 1965 family planning law has been awkward. "The responsibility lies with the Ministry of Health. It is willing but not able, for financial reasons.

"They do not have enough personnel, they do not have enough trained nurses and midwives, and many of the ministry people are hesitant to go to the east; they do not like to live there."

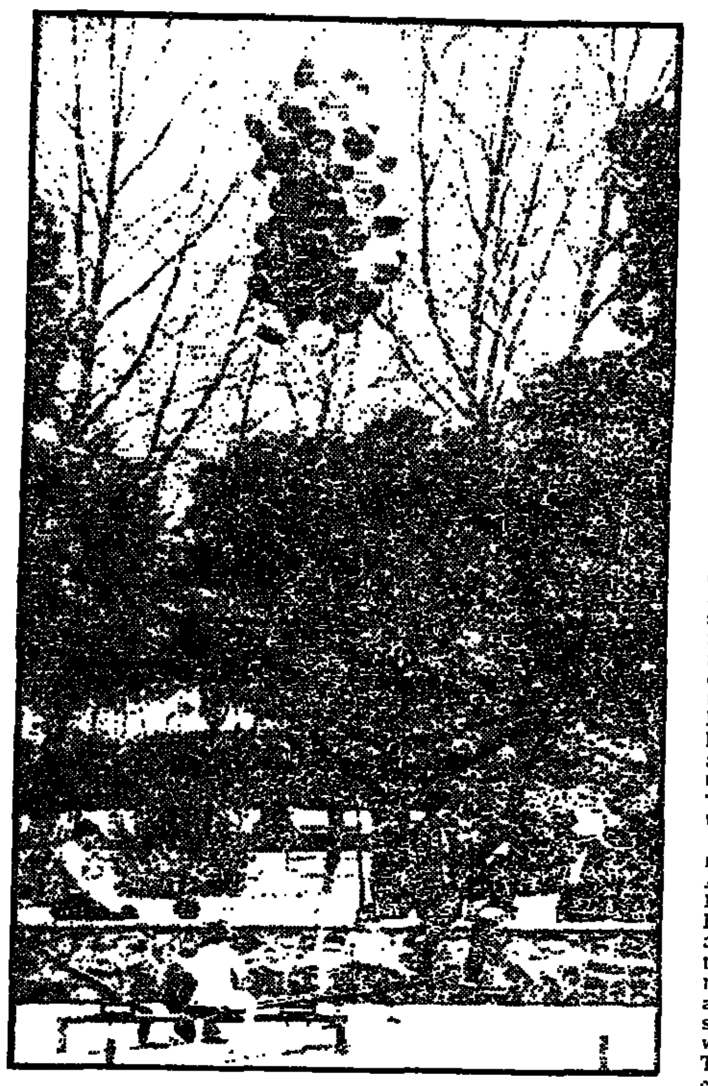
The private sector and voluntary groups have to take this matter seriously and help the Government. The important need is to "create a climate of public awareness."

An aid worker comments: "Contraception is a private affair and there is little a government can do either by legislation or by coercion." But Mr Ural considers that the Government—apart from the president—has not been supportive.

Sex education is not taught in schools, there is a lack of family planning literature and the low age of consent for marriage (15 for girls) means that a woman can often have three children by the time she is 20.

"We are not thinking seriously about the future. Other countries are planning for the year 2000. We are not even thinking about it—and it is only 14 years away," he says.

Roland Adburgham



A balloon seller in Sehzade Park

Tourism

Potential starting to be realised

TOURISM IS one of the great under-developed resources of the Turkish economy, and its potential as a foreign currency earner is only just beginning to be realised.

There are few countries left in the world, and virtually none in Europe, with such large and beautiful stretches of unspoilt coastline, coupled with a balmy Mediterranean climate. This gives the country's western and southern regions a tourist season of at least eight months.

But it is not just the romantic coves of the Aegean, and the long sandy beaches of the southern coast in the Antalya region, that make Turkey into a tourist paradise. Its geographical position as the bridge between Europe and Asia, and its long and infinitely varied history has left architectural and artistic traces that would take even the most diligent "culture vulture" many visits to the country to explore.

The superbly preserved and restored site of Ephesus on the Aegean, a city founded by the Ionians, which later became the Roman capital of Anatolia with a population of 200,000, is one of the archaeological wonders of the world. Yet it is only one among many Greek and Roman settlements, the remains of which can be found dotted along Turkey's western and southern coasts.

However, undoubtedly the greatest tourist attraction of all is the city of Istanbul, formerly Constantinople, that fascinating hinge between East and West which, at every corner, betrays its mixed Christian and Islamic past.

The tourist is offered such a rich diet of attractions in Turkey that it comes as a surprise that so little has been done in the past to develop adequate facilities for foreign visitors.

Until Mr Turgut Ozal, the present Prime Minister, came to power after the military coup of 1980, the Turks were content to do business behind high protective walls and were not geared to satisfying the demands of foreigners.

All that has changed with the opening by Mr Ozal of the Turkish market to foreign competition and the strong emphasis that has been placed on international trade as the means of achieving economic prosperity. Tourism is now seen by the authorities as one of the major growth areas of the economy; but a great deal of ground has to be made up if Turkey is to compete with such successful operators in the field as its neighbour and rival, Greece.

The demand is certainly there, as the rapidly rising revenue from tourism over the past few years shows very clearly. According to the official figures, foreign exchange receipts from tourism grew from as little as US$52m in 1970 to $1.5bn in 1985, though independent sources put the figure at several hundreds of millions of dollars lower than that.

Even if the more conservative statistics are accepted, the net contribution of tourism to the balance of payments was somewhere in the region of $800m to $900m last year and thus played a crucial part in bringing down the current account deficit from $1.4bn in 1984 to an estimated $1bn in 1985.

The problem is not one of attracting more tourists but of providing enough accommodation.

Tourist arrivals in Turkey, which stood at a little more than 1m in 1974, rose to more than 2m a decade later, and last year jumped to 2.6m. The estimate made by the Ministry of Tourism for arrivals in 1986 is more than 3m, but whether the available facilities are sufficient to absorb the increasing numbers is not so certain.

The total tourist bed capacity of Turkey is still only 68,266, substantially less than that of the neighbouring Greek island of Rhodes alone. Istanbul, though endowed with large Hilton and Sheraton luxury hotels and a few other first class hotels, is woefully short of tourist and, indeed business, accommodation, while Ankara, the capital, has no more than one hotel in the luxury class.

Considerable efforts, it should be said, are being made to remedy these deficiencies. New hotels are under construction or planned for Ankara and Istanbul.

The Ministry of Tourism, which has set itself a short-term target of some 130,000 beds by 1990—double the present capacity—and a timeless long-term objective of 600,000 tourist beds, is promoting several major tourism development projects as a priority.

The most important of these is the South Antalya project in southern Turkey covering a 75 kms coastline of long sandy beaches, pine forests and fine archaeological sites.

The infrastructure for the development of the area is being financed partly by the World Bank. The Club Mediterranée, in association with several Turkish partners, is already operating a holiday village on a prime site at Kemer. Club Robinson, a German/Swiss joint venture, with Turkish participation, and Club Salima, a Belgian joint venture with the Turkish Tourism Bank and a Turkish private partner, have also recently opened vacation villages in the region.

Among other major foreign investors in tourism projects in Turkey is British Petroleum, which operates "mocamp" camping sites adjacent to BP petrol stations, Trusthouse Forte of the UK, which is converting the ruined Ciragan Palace on the Bosporus into a 300-bed hotel at an estimated cost of $60m, and United Breweries of Denmark, which is involved in a hotel joint venture at Cesme.

"The incentives offered to foreign investors in tourism projects are attractive, on condition that their schemes "promote the economic development of Turkey," as judged by the authorities, and that they are open to Turkish private enterprise. In addition, foreign investments must total at least TL 40m in "priority" regions and TL 80m in other regions, in order to obtain the prized Tourism Investment and Investment Encouragement Certificates.

The main incentives given to foreign capital at the investment stage are exemption from customs duties and other taxes, including VAT on imports of machinery and equipment, and exemption from taxes and duties on medium and long-term credits from local or international sources. In addition up to 100 per cent of fixed investment costs are deductible from company tax and cash grants of between 7 and 20 per cent of fixed investment expenditure can be obtained from a special fund in the Central Bank.

Further incentives are available during the operational period, including exemptions of customs duties and VAT on imports of raw materials and semi-finished goods, income tax exemption of 20 per cent on foreign exchange earnings and a rebate of up to 4 per cent of such revenues.

Most important of all, perhaps, Turkish law guarantees the repatriation of capital and profits abroad in the national currency of the investment and at the rate of exchange at the time of transfer.

Robert Mauthner

Restaurant on the Shores of Golbasi Lake

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday May 19 1986

INTERNATIONAL BONDS

Interest rate fears put floating-rate notes back in fashion

FLOATING-RATE notes are back in fashion, syndicate managers declare, writes Clare Pearson in London.

This is mainly because investment managers are becoming fearful that interest rates may rise. Floating-rate notes represent the traditional hedge when fixed rates are at their lows.

The floating-rate note (FRN) sector fell from favour at the end of last year after a spate of tightly priced deals led to disillusionment among investors.

Now paper is suddenly in short supply, and expectations are that it will grow still shorter since France has announced its intention of prepaying its $1.8bn loan from the EEC which was funded by a floating-rate note.

That has created an opportunity for borrowers to return to the market, especially if they are sovereign names, which are still more popular with investors than banks.

Morgan Guaranty launched a $300m, 12-year bond for the Republic of Ireland on Friday morning. This issuer, however, is hardly the market's favourite, and Ireland looked a little greedy with its interest rate set at the mean of the bid and offered rates for six-month Eurodollar deposits in London, even though its deal is not callable for the first five years.

Dealers stress that investors are still selective. Issues for, say, Belgium and Sweden are now trading at levels that yield up to seven basis points below London interbank offered rate (Libor). Investors demand a differential over Libor for lesser credits, however.

Morgan Guaranty said Ireland's terms corresponded with an outstanding deal for Italy, which also has five-year call protection and is now trading slightly over par.

Yet dealers expressed great surprise at the terms of Ireland's bond although the borrower said it had received bids from other issuing houses at similar levels.

Ireland's bond was quoted in the market at 99¾ bid though this suggested the firm hand of the lead-manager. One Japanese co-manager said that Japanese institutional investors found its terms "out of the question."

Morgan Guaranty is launching an FRN for Banco di Roma early this week, and dealers were crossing their fingers on its terms on Friday afternoon. Meanwhile, issues such as New Zealand's bond continued to trade well.

The fixed-rate Eurobond market continued in poor health last week under the influence of a weak US Treasury bond market. New issuing activity slowed noticeably, but the volatility of US government bond markets last Wednesday ensured that some of the bonds that did appear were exceptionally badly timed.

Goldman Sachs International's $100m 10-year fixed-rate deal for the Republic of Austria was one such luckless issue. It was priced initially at a margin net of fees of 22 basis points over the US Treasury bond yield curve.

A sharp downturn in prices of US government stocks pared the already slim differential to about eight basis points by close of syndication. The bond was quoted in the market at the end of the week at a discount to issue price of 4¾ per cent.

Also badly timed were Wednesday's three Australian dollar deals, launched in the wake of a speech by Mr Paul Keating, federal Treasurer, who warned that Australia was in danger of becoming a "third-rate economy." Chrysler's A$50m bond accordingly traded immediately well outside its commissions.

The Bulldog market reopened last Tuesday, secure in the knowledge that ½ per cent stamp duty will not be imposed on these issues, as was threatened in the budget speech.

S. G. Warburg launched a Bulldog for the Republic of Portugal by way of a placing rather than an offer for sale, which is normal for sovereign issues in the UK domestic market. In this respect, the bond anticipated the removal of fixed-rate commissions from Bulldog bond trading, expected during the summer.

The offer for sale route has enabled issues for sovereign and state-backed names to obtain the slimmest secondary market trading commissions, since it entitles them to be treated in the same way as gilt-edged stock.

This adds trading liquidity and can result in investors accepting lower new issue yields than would otherwise be the case.

But the offer for sale route is both costly and cumbersome. Fees are higher and a prospectus has to be published. With the abolition of dual capacity trading in the Bulldog market later this summer, the extra trading advantage will no longer be worth this effort, since trading commissions on all Bulldog issues will be freely negotiated.

The Ecu and D-Mark sectors continued to trade thinly. The D-Mark sector was particularly depressed on Thursday after Mr Karl Otto Pöhl, Bundesbank president, said that a cut in West German interest rates would be linked to the D-Mark's level in the European Monetary System. Since it is currently near the bottom of the range, this made rate cuts look remote.

Some investors are re-channelling funds into the French franc sector, which offers high yields and a strong currency. A new FFr 700m deal for Japan Air Lines traded well last week, despite the fact that dealers initially thought its 7½ per cent coupon and 100½ issue price tight.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
US$	6,443.5	391.3	683.6	538.5
Prev	5,395.1	452.2	–	604.8
Other	4,583.2	–	627.8	28.5
Prev	2,720.0	–	1,134.8	13.5
Secondary Market				
US$	21,299.6	1,411.5	9,209.0	2,302.8
Prev	23,143.1	1,396.1	9,578.3	2,731.7
Other	8,488.3	144.5	1,160.7	2,940.8
Prev	10,645.8	293.1	1,696.6	3,055.9

	Cedel	Euroclear	Total
US$	14,060.0	28,317.8	42,377.8
Prev	13,398.9	29,893.4	43,292.3
Other	10,215.4	7,736.5	17,951.9
Prev	9,616.4	9,943.3	19,559.7

Week to May 15 1986. Source: AIBD

Zurich to extend trading in equities

By John Wicks in Zurich

THE Zurich stock exchange intends to open a fifth trading floor by next Spring. According to Dr R. T. Meier, bourse director, this will permit an extension in domestic equity trading.

With the additional floor, which is to be installed provisionally in a neighbouring building, Zurich will be able to carry out business in Swiss shares in two separate rings. One of these will serve as a continuous market for 20 to 25 leading equities of international significance, the other for traditional dealing in other Swiss shares.

It is "conceivable" that a sixth trading floor will be added later, said Dr Meier, though he stressed that no concrete plans for this yet exist. The Zurich exchange expects to move into new premises at about the end of 1991.

In the meantime, fixed-term forward trading is soon – probably on July 1 of this year – to start in warrants. This is seen as an initial step towards the introduction of traded options, which will take place at the end of 1987 or later.

Intercom reports rise in earnings

INTERCOM, Belgium's largest utility, has reported a 14 per cent rise in net earnings to BFr 8.8bn ($95.5m) in 1985 from BFr 7.7bn a year earlier, AP reports from Brussels. The company is raising its dividend, net of withholding tax, on both common and special AFV stock, which carries a tax credit.

The payout on common shares is increasing to BFr 183 a share from BFr 175 a year earlier, while the dividend on two series of AFV stock is rising to BFr 195.20 from BFr 186.66 a share over 1984.

EURONOTES AND CREDITS

GMAC move could boost expanding Eurocommercial paper market

GENERAL MOTORS Acceptance Corporation (GMAC), the largest issuer in the US commercial paper market, is riding into Europe. It has appointed four banks to act as dealers in a Eurocommercial paper programme that could build up to as much as $2bn, writes Peter Montagnon in London.

The programme is likely to be one of the largest yet and could give a large boost to the fast growing Eurocommercial paper market.

"We feel that this paper will eventually represent the corporate benchmark in the same way as Sweden represents the sovereign benchmark," says Mr Rawle Michelson of Morgan Stanley, one of the dealers appointed.

Selling of commercial paper is expected to get under way on June 24. GMAC will offer paper in minimum denominations of $500,000 and with a maturity of up to 183 days.

It has no preconceived idea of the amount it expects to raise, but Mr Robert Almon, its vice-president for borrowings, says GMAC should be able to achieve the same share of the Euromarket as it does with its commercial paper in New York.

In New York its outstandings, which have risen by 60 per cent to $32bn in the last 18 months, now account for some 10 per cent of the total market. Based on an estimated $20bn outstanding in the Euromarket altogether, that implies a programme of some $2bn for GMAC alone.

That would be a programme large enough to create a market for the first time with real depth and trading liquidity. The hope is that this will attract new buyers into the market, fuelling the growing interest in Eurocommercial paper among non-bank investors.

Mr Almon says GMAC's decision to tap the Euromarket was in no way a function of concern that it had reached its effective borrowing limit in New York; it was a genuine attempt to attract a new investor base for its paper.

GMAC, which is known for negotiating the terms of its bond issues in the Euromarket rather than inviting potential lead managers to bid for the best rate, has also adopted a measured approach in the Eurocommercial paper market.

It wanted to avoid encouraging its dealers to engage in competitive macho bidding, regardless of whether they can place the paper they acquire.

So it is paying the dealers in its paper – the other three are Credit Suisse First Boston, Merrill Lynch and Shearson Lehman Brothers – a commission to take over the agency function of distributing paper based on rates posted continuously by itself.

"GMAC is interested in developing a long-term relationship with investors," Mr Almon stresses.

If it succeeds, bankers hope this will lend an aura of established respectability to a market that so far still retains a flavour of the experimental.

In a separate move Euronote and commercial paper dealers have now collectively agreed trading rules, which, said Mr Kevin Regan of Merrill Lynch on Friday, should also help inspire the confidence of investors.

Yet GMAC is also taking something of a gamble. One of the big uncertainties in the Eurocommercial paper market has always been the degree of actual investor demand for short-term paper.

The idea is that its programme should, through its very existence, stimulate such demand because it offers flexibility and liquidity that were not available before.

As one banker put it at the weekend, the problem has always been finding investors rather than borrowers. With GMAC looming from next month the chase is well and truly on.

Meanwhile Statoil, Norway's state-owned oil concern, has launched a $300m, eight-year loan facility through Salomon Brothers. This deal has nothing to do with balance of payments financing for Norway, expected following the recent change in government, devaluation and the decline in oil prices. Instead it will be used to refinance existing borrowings, including a $100m facility arranged for Statoil by Salomon in 1984.

However, the terms suggest that Norway's credit standing is still high. The deal will bear an annual facility fee of 5 basis points for the first five years, rising to a 6¼ points thereafter. Drawings on the accompanying standby credit will bear interest at a margin of 1/16 per cent over Libor (London interbank offered rate for Eurodollar deposits), with an additional utilisation fee of up to 12½ basis points, depending on how much is taken.

SG Warburg and Banque Paribas have launched a £200m facility for France's Compagnie Bancaire, which finances trade. The five-year deal allows the borrower to raise funds in the bankers' acceptance market or through cash advances or medium-term sterling notes.

There will be an annual facility fee of 5⅛ basis points and drawings on the accompanying credit will bear interest at a margin of 12½ basis points if less than 35 per cent of the total is used, 27½ points if more is taken.

Ireland's decision to launch a $300m floating-rate note on Friday came as a disappointment to the credit market which had been expecting a loan facility, though bankers in Dublin say this is still on the finance ministry's mind. Both deals would be to refinance existing borrowings at lower cost.

Ireland has already raised all the fresh money it needs for 1986 and has embarked on a refinancing programme which, before the FRN was launched, already totalled the equivalent of some I£400m.

Such prepayments often come as a blow to bankers, who see their expected returns shrinking. Citicorp has written in some protection against this in a $60m deal it is arranging for Landsvirkjun, Iceland's national power company. The 10-year deal with a margin of 5/16 rising after five years to ⅜ cannot be prepaid for five years.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Dealers and investors increasingly gloomy

THE US Federal Reserve Board's policy-making Federal Open Market Committee (FOMC) meets tomorrow amid deep uncertainty over the future course of interest rates.

Last week saw bond prices nose-dive in response to lack-lustre retail demand, mixed economic data and big jumps in the US money supply measures—increases which all but wiped out any lingering hopes of any further easing by the Fed and while the dollar stabilised in the foreign exchange markets, its recent weakness is still casting a shadow over trading.

The market's mood is gloomy and all but a few bulls have run for cover. According to the closely-watched Market Vane poll of trader sentiment, only a modest 35 per cem of respondents are currently bullish on government bonds, down from 51 per cent a week ago. While low readings can signal a market bottom, few people are willing to predict that the sell-off is over.

Indeed the recent market reversal, which has seen short T-bill rates soar by almost 40 basis points and the long bond yield bounce back from a low of 7.11 per cent to over 7.60 per cent in just a month. has many Wall Street watchers questioning whether the "good news" and the historic two-year decline in rates is finally over.

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	6.88	6.79	6.92	9.91	6.79
Three-month Treasury bills	6.19	6.06	5.87	7.40	5.78
Six-month Treasury bills	6.28	6.06	5.83	7.64	5.79
Three-month prime CDs	6.82	6.58	6.42	8.10	6.42
30-day Commercial Paper	6.75	6.63	6.38	8.05	6.38
90-day Commercial Paper	6.70	6.50	6.25	8.10	6.25

US BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	97¼	−2¾	7.93	7.40	6.86
20-year Treasury	111½	−5	8.19	7.73	7.28
30-year Treasury	95¾	−3	7.63	7.38	(new)
New 10-year "A" Financial	N/A	−3¼	9.25	8.75	8.13
New "AA" Long utility	N/A	−1¼	9.25	9.13	8.88
New "AA" Long industrial	N/A	−2½	9.13	8.88	8.50

Money Supply: In the week ended May 5 M1 rose by $6.1bn to $654.7bn. In April M2 grew by $29.6bn to $2,621bn and M3 by $28.8bn to $3,287bn.

Source: Salomon Bros (estimates).

The latest setback, which began a month ago, continued with a vengenace last week as dealers and investors grew increasingly pessimistic about the dimming prospects for further interest rate declines. Most short-term interest rates rose by between 13 and 32 basis points, continuing a jittery upward trek which may be one factor helping to stabilise the US currency.

Government bond prices plunged, reflecting concern about higher interest rates, more rapid growth of the money supply, new (and probably unfounded) concern about inflation, and the supply overhang left by the previous week's $27bn Treasury refunding. Sizeable chunks of this have still to be distributed to cautious retail investors.

Treasury bond prices were marked down by between 1½ and 5¼ points. Even the new Treasury long bond, auctioned ten days ago at an average yield of 7.37 per cent, was under pressure. At the end of the week the price of the new 7¼ per cent long bond was three full points lower, while its yield was up at 6.63 per cent. Lack of interest in older 20-year paper was even more pronounced, leading to a sharp steepening in the yield curve between 20 and 30 years to 50 basis points.

Corporate bond prices also suffered, although to a lesser extent, falling by between 1¼ and 1¾ points. Medium-term new issue yield levels rose by 50 to 75 basis points while long yields climbed a more modest 13 to 25 basis points.

Higher corporate funding costs are beginning to have an impact on the hitherto runaway pace of refinancing and new issuance activity. A slowdown is already apparent so far this month, with a relatively modest $1.8bn in new straight debt brought to market last week.

The markets are reacting to a wide array of negative factors. Top of the list last week was the unexpectedly large $6.1bn jump in M1, the basic money supply measure. The increase, the latest in a series of big increases which have resulted in M1 racing along at an annual 14.5 per cent clip in April, puts M1 well above the Fed's 3 to 8 per cent target cone range — but leaves the basic money supply measure still within the Fed's alternative parallel bands.

Nevertheless the renewed and probably misplaced concern about rapid M1 growth was given added psychological impact by the big April increases in the broader monthly monetary aggregates, M2 and M3, both of which posted double-digit annualised percentage gains last month.

The $29.6bn increase in M2 put it just back within the bottom of the Fed's six to nine per cent target cone. The $28.8bn rise in M3 left it just above the mid-point of its six to nine per cent target range.

Most Wall Street economists continue to discount the relevance of M1 for Fed policy makers, while also expecting a seasonal slowdown to begin soon. They do, however, accept that the recent strong M1 growth has added another note of caution into the markets.

They suggest the FOMC will focus on the dollar, the state of the economy, domestic and international debt problems and apparent strains in the US banking system.

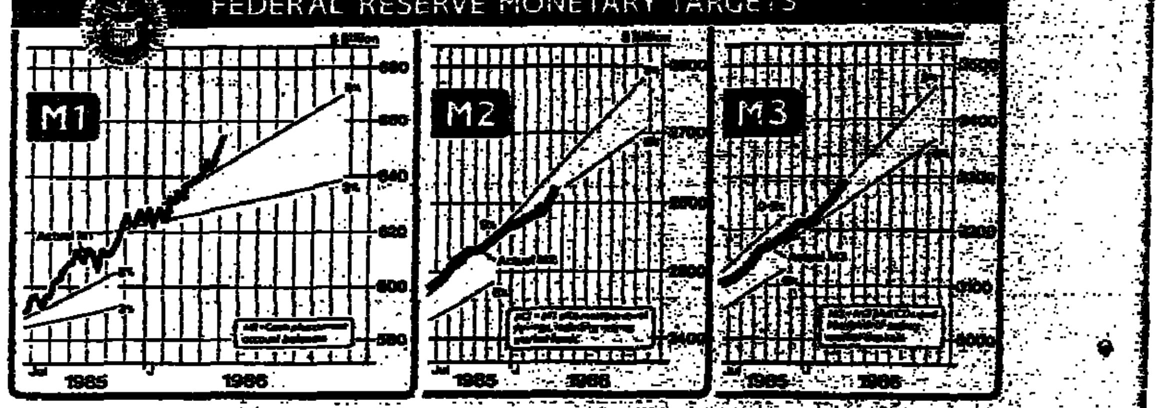
The consensus is that the FOMC is unlikely to change its policy at the meeting—a decision which they suggest would result in a continued $250m Fed target for Bank discount window borrowing and a Fed funds rate of between 6¾ and 7 per cent.

Among the reasons advanced why the Fed should not alter its posture are the continued uncertain economic picture—which seems to suggest a slight improvement in final demand but sluggish capital spending—concern about triggering a renewed precipitous dollar slide and confusion over the longer-term implications of tax reform.

Wall Street expects the 3.2 per cent preliminary first-quarter real gross national product number to be revised down tomorrow and the April consumer price index to show a further decline of about 0.3 per cent when it is released on Wednesday.

Paul Taylor

FEDERAL RESERVE MONETARY TARGETS



UK GILTS

Index-linked sector alone in recording gains

IN A WEEK in which inflation was the only good news to be had, it was ironic that the index-linked sector of the gilts market was alone in recording gains. Even the news of retail price inflation falling to an annual rate of 3 per cent could not take the chill off the market in the wake of weaker US bond prices and a batch of depressing UK domestic economic indicators.

The FT Government Securities index fell from 92.26 at the end of the previous week to 91.54 on Friday, despite a rally on Wednesday. The FT Actuaries 25-year high coupon yield, meanwhile, climbed from 9.03 per cent to 9.17 per cent, 44 basis points above this year's low.

The Index-linked all-stocks index, however, rose from 117.61 to 118.6. The Bank of England promptly announced three £100m tranches of the index-linked stocks of 2003, 2009 and 2013.

The market, in short, did not buy the message from the Chancellor that Britain has made a decisive breakthrough into calmer territory below the 5 per cent inflation barrier.

This may be a little ungrateful. Although the fact that the inflation rate has already dropped below the Government's forecast of 3¾ per cent for the fourth quarter may be largely due to the Treasury not anticipating the second of this year's cuts in mortgage rates, even with the exclusion of mortgage payments the rate has still fallen to 3.4 per cent.

After a long spell in which the market preferred to look for good news close at hand, attention is now focused on the gloomier prospects a little further ahead.

"The fall in inflation to 3.0 per cent on Friday is in line with our view that inflation will tumble to 2.6 per cent when the figure for June is announced," comments stockbroker James Capel. "However, it increasingly looks as if this will be the bottom for inflation in the current cycle. The prime determinant of inflation in the medium term is movements in unit labour costs and the news on that front has not been very good over the last couple of weeks."

"Not very good" seems something of an understatement when applied to a year-on-year increase of 8.9 per cent in wages and salaries per unit of output in March, or 8.3 per cent for the first quarter. The figure caught the eye of a significant number of investing institutions — the first time in recent memory that its publication has elicited much response from the market.

The message in this for interest rate levels is two-edged, and it is noticeable that while many economists have now shifted their year-end inflation forecasts down significantly, revisions of their base rate forecasts have been much more tentative.

Clearly, the exceptional rise in unit labour costs is viewed at the Treasury as one of the main reasons for the UK's high real interest rate levels. Tight monetary conditions are viewed as necessary to prevent the potential inflationary impulse of rising earnings from becoming realised in higher prices.

Yet it is also clear that the sharp jump in unit labour costs announced on Thursday was driven largely by the downturn in output in the first quarter—deepened by a significant revision downwards of the figures published earlier for industrial output in January and February. And this slowing of the economy argues perhaps for a fall in interest rates.

By Thursday, at all events, the market was considerably more cautious about the base rate cut that some observers had earlier in the week been confidently predicting.

"The news on unit labour costs perhaps slows down the schedule for base rate cuts," commented Mr George Hodgson, economist at broker Scrimgeour Vickers, "but the schedule still exists."

But if the promised cut in base rates to 10 per cent does come, will investors still be sufficiently confident of the next cut after that to buy the market?

George Graham

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
AHFC O/S Fin 11¼ 94	100	106¾	0	10.49
AIDC 11 89	75	107½	−0¼	7.79
Alcan Australia 8½ 89	25	99¼	−0¼	8.84
Amer Savings 12 89	125	105¼	−0½	9.74
Amer Savings 12¼ 89	100	106	−0½	9.84
Asian Dev Bk 11¼ 93	100	116⅞	+0½	8.58
Australia 11¼ 90	100	113⅞	−0¼	7.43
Australia 11½ 95	300	119	−2¾	8.47
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Issued	Price	Chg. on week	Yield
Quebec Prov. 12¾ 94	150	109¾	−0¼	8.11
Queensland Gvt 11¾ 89	100	109⅞	−0¼	8.49
RBC 11¼ 90	100	111½	0	8.87
Rural Bk Aust 12 91	50	112⅞	−1¼	8.92
Sanwa Bank 11⅞ 92	150	113¾	−1¼	8.50
Sanwa Intl 11½ 92	100	111	−2	8.27
Saskatchewan 10¾ 92	100	108¾	−1¼	8.03
Saskatchewan 10½ 90	125	111¼	−1¼	7.88
Saskatchewan 11⅞ 89	100	129½	−2¼	8.69
Saskatchewan 15 92	150	119	−1¼	8.18
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONVERTIBLE BONDS	Conv. date	Conv. price	Price	Chg. on week	Prem.
Fuji Bank 2¾ 00	100	128¾	−4¼	−100.0	
Fujitsu 3 99	100	123	−3¼	2.18	
Intec Inc 3 99	50	104¾	−3	−1.29	
Kyowa Hakko 6¼ 97	40	327½	−1½	1.22	
LASMO 9¼ 99	44	86¾	−0¾	113.03	
Mori-Hennessy 7 99	59	180¼	+5¾	−8.25	
Murata Mfg 3½ 00	300	167¾	−5¾	21.70	
Nippon Oil 3¾ 99	80	158¼	−13½	0.90	
Ono Pharm 3¼ 98	60	176¼	−3¼	−0.47	
Spp Gen Surv 4¼ 94	50	189¾	+1⅞	−2.83	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.

FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon.

CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price. † Perpetual.

Closing prices on May 16.

GLOBAL FINANCIAL MARKET

Tokyo turns a critical eye on itself

BY DAVID LASCELLES, BANKING CORRESPONDENT

DOES TOKYO have what it takes to be a major international financial centre?

The assumption that Tokyo, along with London and New York, will dominate the world financial scene as a "global market" emerges has taken deep root in the minds of bankers and financiers in the last year or two. But of the three, it is probably the least well understood by foreigners, and certainly the least penetrable. And the answer to the opening question could still be no.

Tokyo's failings are well-known to anyone who has tried to do business there: a rigid financial system, a defensive bureaucracy, deeply entrenched domestic banking and securities industries, and the usual cultural barriers. These have been offset by the attractions offered by huge markets, massive capital exports, and the prospect of further financial liberalisation.

Now the Japanese have produced an inside view of the challenge facing Tokyo, and the deficiencies it must overcome if it is to match New York and London. It comes from the Nomura Research Institute, the research arm of the country's largest securities firm, in a special study* of the world financial markets commissioned last year to commemorate the Institute's 20th anniversary.

"Basically," the study says, "there will have to be a radical and complete revolution in thinking" if Tokyo is to succeed—and specifically if Japan is to avoid making the same mistakes as the US in the early days which resulted in international financial business migrating to London.

Nomura sees an ominous sign in the parallel between Japan's heavy dependence on the New York bankers' acceptance market, and the days before World War I when US trade was largely financed in London. "It is a fact that because of internal restrictions, Japan is forced to rely on overseas financing," it says.

The study makes several proposals to correct Tokyo's failings:

- Japanese banks should commit themselves more heavily to the new yen-denominated bankers' acceptance market, which has been a flop. It also urges the creation of an offshore banking centre in Tokyo, which is now going ahead.
- Internationally acceptable trading rules and practices should be introduced as quickly as possible. "There is a tendency in Japan," it says, "for the country to develop its own unique practices and its own way of doing things, and Japan has not been very active in adopting the rules and practices of other nations to pave the way for integration."
- Investment should be made to ensure the training of people needed to enable Tokyo to develop as a financial centre. If Tokyo is to match New York, it will have to raise the number of people employed in financial services from between 220,000 and 230,000 to between 300,000 and 400,000 in the next ten years.
- Several regional research centres should be set up in Japan to study the West Pacific economy and to support Tokyo's position as the natural financial market for the region.
- Japan should develop its own information bases, and its own international electronic wire service like Reuters and Dow Jones-Telerate.

The striking point about this list is that—to foreign eyes at any rate—it omits what might seem the more important issue of speedier liberalisation of the financial markets. But outsiders might draw some encouragement from the second proposal—to bring Japanese trading practices more in line with the rest of the world. No matter how large Tokyo becomes in relation to London and New York, it will always be treated as the odd one out until that happens.

**The World Economy and Financial Markets in 1995; Japan's role and challenges. Nomura Research Institute, 24, Monument St, London EC3R 8AJ. 01-626 1086.*

Earnings and payout increased at Nampak

By Jim Jones in Johannesburg

NAMPAK, the South African packaging company, relied largely on its paper-based operations to generate higher profits in the half-year to March while Metal Box South Africa, its 54 per cent-owned subsidiary, reported higher turnover but lower operating and pre-tax profits for the period.

Consolidated sales for Nampak rose to R837.2m ($387.2m) from R715.7m and pre-tax profits were R70.9m against R60.7m.

Mr David Brown, the chairman, says turnover rose by 8 per cent in real terms, but adds that this included sales from a new tissue wadding mill and from infant and sanitary protection product lines. He says that export sales grew well and that margins were improved by increased volumes and plant loadings.

In April Nampak acquired a Natal-based paper sack manufacturer and issued R10.44m in new shares for the purchase. Mr Brown says that political and economic uncertainties make forecasting difficult, but he believes that earnings should increase modestly this year.

First-half earnings rose 76 cents a share from 71 cents and the interim dividend has been raised to 33 cents from 32 cents. Nampak is indirectly controlled by Barlow Rand, the industrial and mining group.

Metal Box South Africa, which remains an affiliate of the British Metal Box Company, suffered from the effects of tight trading conditions exacerbated by higher costs of imported raw materials.

Turnover increased to R419m from R369m, but pre-tax profits declined to R25.5m from R27.1m.

The directors say that the beverage can and liquid packaging divisions were adversely affected by higher imported raw materials costs due to the rand's weakness.

Interim earnings slipped to 23.8 cents a share from 24.8 cents but the interim dividend has been maintained at 10 cents. Last year's earnings were 54.1 cent a share and a dividend total of 22 cents was paid.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Sumitomo Sp. Metals ¶‡	80	1991	5	2¾	100	Daiwa Europe	2.750
SCI Systems §‡	60	2001	15	3	100	Nivison Cantrade	3.023
American Bankers Ins. §‡	70	2001	15	5¾	100	Kidder Peabody	5.750
Diesel Kiki ¶‡	50	1991	5	2¾	100	Yamaichi Int. (Eur)	2.750
Daewoo Heavy Ind. §‡	40	2001	15	3	100	Nomura Int.	3.000
Minebea ¶‡	50	1991	5	2¾	100	Nomura Int.	2.750
Minebea ¶‡	50	1991	5	2¾	100	Daiwa Singapore	2.750
Bqe Paribas (London) ‡	50	1989	3¼	10	101¼	Banque Paribas	9.503
Bqe Paribas (London) ‡	50	1989	3¼	8	101¼	Banque Paribas	7.533
New Zealand (a)†‡	250	1996	10	⅛	100.15	Salomon Brothers	—
Japan Highway ‡	130	1996	10	7⅝	100⅞	CSFB	7.400
The House Co. §	100	1996	10	(5¾–6)	100	Chemical Bank	*
SGS Finance Lux. ¶‡	100	1996	10	3	100	UBS Secs.	3.000
Ansett Finance ‡	100	1996	10	8⅞	100¼	Banque Paribas	8.838
Int. Finance Corp. ‡	55	1996	10	8¼	101½	Yamaichi Int. (Eur)	8.026
Austria ‡	100	1996	10	7¾	101	Goldman Sachs	7.604
Quatrain Co. ‡	100	1989	3	10	100⅞	Nomura Int.	8.858
Alex Brown & Sons §	25	2001	15	(5¾)	100	Kleinwort Benson	*
D'Urban Inc. ¶	40	1991	5	(2⅞)	100	Nikko Secs. (Europe)	*
Emerson Electric ‡	100	1998	12	7⅞	101⅜	IBJ Int.	7.695
WestLB Finance ‡	100	1991	5	8	100⅞	Nomura Int.	7.782
Bank of Nova Scotia Φ‡	150	1991	5	7⅞	100⅛	Morgan Stanley	7.944
Credito Italiano (London) ‡	100	1991	5	8	101	First Chicago	7.761
Ireland †‡	300	1998	12	(b)	100	Morgan Guaranty	—
EEC ‡	100	1996	10	8¼	101¼	Morgan Guaranty	8.063
AUSTRALIAN DOLLARS							
Chrysler Fin. Corp. ‡	50	1990	4	13½	101⅛	Banque Paribas	13.121
F. van Lanschot ‡	40	1991	5	12⅝	101½	Bank of America Int.	12.207
Unilever ‡	50	1989	3	12¼	100¾	Bankers Trust Int.	11.938
D-MARKS							
Senko Co. ¶‡	70	1991	5	1¼	100	Bayerische Vereinsbk	1.250
German Public Sector Fin. ‡	500	2016	30	5⅞	98¾	Deutsche Bank	5.965
Metallgesellschaft Fin. ¶‡	150	1996	10	2¾	100	Dresdner Bank	2.750
Daimler-Benz ‡	500	2001	15	5¾	100	Deutsche Bank	5.750
General Motors ‡	200	1996	10	5¾	100	CSFB-Effectenbank	5.750
Yorkshire Int. Fin. ‡	200	2001	15	6¼	100	WestLB	6.250
African Dev. Bank ‡	100	1996	10	6¼	100	Deutsche Bank	6.250
SWISS FRANCS							
Olivetti Int. (Lux)	150	2046	—	(6⅝)	(100)	Soditic	*
Okamura Corp. ¶‡	30	1994	—	1⅛	100	Handelsbank	1.125
Marukyu Co. **¶‡	45	1991	—	1	100	SBC	1.000
Yokohama Rubber **¶‡	80	1991	—	1	100	Bqe Paribas (Suisse)	1.000
Gomen Co. **‡	12	1991	—	4⅞	100	SBC	4.875
Commercial Union ¶	200	(2000)	—	(4¾)	(100)	Handelsbank	*
Tasaki Shinju **¶	50	1991	—	(1¼)	100	Banca del Gottardo	*
STERLING							
Portugal ‡	50	2016	30	9	87.179	S. G. Warburg	10.406
ECUs							
Int. Finance Corp. ‡	55	1995	9½	6⅝	100	CCF	6.625
FRENCH FRANCS							
Japan Air Lines ‡	700	1996	10	7½	100½	Banque Paribas	7.427
LUXEMBOURG FRANCS							
EIB **‡	300	1991	5	6¾	100	BIL	6.750
YEN							
African Dev. Bank ‡	15bn	2001	15	5.9	100	Nomura Secs.	5.987
Korea Elec. Power ‡	20bn	1996	10	6	100	Nikko Secs.	6.098
Province of Quebec ‡	20bn	1998	12	6	101¾	Nomura Int.	5.794
BFCE ‡	20bn	1996	10	5¾	101½	Daiwa Europe	5.551
Finland ‡	13.5bn	1991	5	5⅜	101	Bank of Tokyo Int.	5.143
Eurofima ‡	10bn	1993	7	5⅝	101⅜	IBJ Int.	5.384
OKB ‡	20bn	1991	5	5⅝	101⅜	Nomura Int.	5.429

*Not yet priced. ‡ Final terms. ** Private placement. § Convertible. † Floating rate note. ¶ With equity warrants. Φ With bond warrants. (a) ⅛ over 6m Libid. (b) Equal to the Limean. Note: Yields are calculated on AIBD basis.

Lazard Bros. seeks stake in Indian bank

By R. C. Murthy in Bombay

LAZARD BROTHERS has proposed taking a stake in Creditcapital Finance Corporation (CFC), making it India's first joint venture in merchant banking.

Mr Udayan Bose, CFC chairman, said the UK institution has sought permission from the Reserve Bank of India to acquire 25 per cent of CFC, although the authorities might restrict this to 20 per cent.

CFC is the first merchant bank in India to have become involved in corporate restructuring, mergers and acquisitions, and project financing. Merchant banking in India has largely centred on management of equity issues.

The bank is currently attempting to revive three loss-making companies by strengthening equity, arranging loans and supplying management. For Gramophone Company of India (GCI), one of the three, CFC has identified areas for diversification and Mr Bose has taken management responsibilities by becoming its vice-chairman.

Advance for Okuma Machinery

BY YOKO SHIBATA IN TOKYO

OKUMA Machinery Works, a Japanese machine tool maker, has shown the benefits of strong demand from car makers in reporting record pre-tax profits of Y10bn ($61.35m) in the year to March 31, up 23.6 per cent.

Net profits were 57 per cent higher at Y52bn, on sales of Y90.97bn, up 27 per cent. Earnings per share rose to Y40.87 from Y26.04, and the company will pay a Y9.75 per share dividend. This involves an increase in the ordinary payment from Y8.50 to Y9 and an additional special distribution.

Of total turnover, exports accounted for 37.5 per cent—a jump of 53.4 per cent.

However, Okuma foresees a far poorer business environment for the current year. The strength of the yen has had a negative effect on export sales margins and has even hurt demand from domestic customers such as the car makers.

Pre-tax profits are projected at Y7bn, down 30 per cent, with net profits at Y3.3bn, down 37 per cent on turnover of Y87bn, a fall of 4 per cent.

A Y9.50 dividend is expected.

- NTN Toyo Bearing, has reported parent company net earnings for the year ended March 20 down by 34.2 per cent to Y5.63bn from Y8.56bn despite sales up from Y236.7bn to Y240.4bn. AP-DJ reports from Tokyo.

Net income dropped to Y15.87 per share from Y24.21 but the company plans to pay an unchanged dividend total of Y8 per share.

The company said the drop in earnings resulted mainly from the negative impact of the yen's sharp appreciation.

For the current year, sales are expected to increase to about Y245bn, but net earnings are forecast to decline to about Y5bn.

Murata lifts dividend despite flat year

BY OUR FINANCIAL STAFF

MURATA MANUFACTURING, a Japanese maker of parts for television sets and personal computers, is lifting its dividend as forecast, despite a flat year just ended and the prospect of an earnings decline in the current 12 months.

Group net profits edged up by Y180m ($1.1m) to Y21.67bn in the year to March 20, on sales which showed a 5.6 per cent dip to Y205.06bn.

The dull performance in part reflected a bare Y70m rise in pre-tax profits for the parent company alone, to reach Y22.69bn. These are forecast to fall 22 per cent in the current year to some Y17bn, despite a revival in sales.

The annual dividend is none the less being raised from Y14 to Y15, a level which Murata hopes to maintain for 1986-87. Consolidated earnings per share were Y135.82 compared with Y163.88.

Murata, which specialises in ceramic capacitors and filters, has 10 operating subsidiaries overseas.

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This announcement appears as a matter of record only.

NEW ISSUE April 1986

320,000 Free Common Shares

300,000 Free Preference Shares

NOKIA

Direct placement of the above Shares was arranged by the undersigned.

The First Boston Corporation

This announcement appears as a matter of record only.

NEW ISSUE April 1986

1,185,000 Free A Shares

Amer Group Ltd

Direct placement of the above Shares was arranged by the undersigned.

The First Boston Corporation

This announcement appears as a matter of record only.

NEW ISSUE April 1986

5,000,000 Shares

Class C Common Stock

Union Bank of Finland Ltd.

Direct placement of the above Shares was arranged by the undersigned.

The First Boston Corporation Unitas Ltd.

This announcement appears as a matter of record only.

NEW ISSUE January 1986

300,000 Non-Restricted

Series II Shares

Finnish Sugar Co. Ltd.

Direct placement of the above Shares was arranged by the undersigned.

The First Boston Corporation

Burton seeks 'specialist' buyer for Hamleys toys

BY MARTIN DICKSON

Burton Group, the retailer, has put up for sale Hamleys, the famous toy shop in London's Regent Street, which it acquired las August as part of its £560m takeover of Debenhams, the department store chain.

Goldman Sachs, the US investment bank, has been appointed to handle the sale, and an informal prospectus is being sent to possible buyers in both the UK and US. These are thought to include the large US chain Toys R Us, which began operating in the UK last year.

Hamleys, which has two other stores outside London, in Bath and Birmingham, produced turnover of £15m in the year to February 1985. With its international reputation, it might fetch between £25m and £50m.

Mr Ralph Halpern, chairman of Burton, said the name had enormous potential, and Burton would sell to the people who could develop this to the fullest.

Mr Halpern had been hinting for several months that Burton might dispose of Hamleys, on the grounds that it might be better developed in the hands of a specialist toy retailer.

The sale forms part of his plan to reduce Burton's level of debts, which rose to over £300m in the wake of Debenhams acquisition. Burton is expecting to raise £10m from the disposal of certain US property assets, and recently raised £40m from the sale and leaseback of 27 freehold shops. It also wants to sell Debenhams chain of US shoe shops.

However, Mr Halpern appears keen to hang on to Harvey Nichols, the Knightsbridge store which was also acquired with Debenhams.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims: Australia and New Zealand Banking, Brooke Tool Engineering, Matthew Brown, Craton Lodge and Knight, Crystalate, Dubilier, Pericom, United Scientific, John Williams.

Finals: Associated British Foods, Clayford Properties, Godwin Warren Control Systems, Ivory and Sime, Readicut International, Tomkinsons.

FUTURE DATES

Interim—	
Appledore (A. and P.)	May 20
Pericom	May 27
Sturge	June 3
Finals—	
British Telecommunications	June 19
Buckley's Brewery	May 29
Coalite	May 28
Hargreaves	June 26
New England Properties	May 23
Plessey	May 22
Redland	May 29
Wettern Brothers	May 29

Major shake-up imminent at Brunning

BY DAVID GOODHART

Brunning Group, which in 1961 became the first advertising agency in Europe to receive a stock market quotation, will today announce an unexpected trading loss of about £200,000 and a major shake-up in its senior management.

Mr Geoffrey Brunning, the chairman, is resigning along with another senior director, Mr Frank Casey, although both men will retain contact with the company in an advisory role.

The share structure of the company is also being transformed. The Brunning family shareholding, which represented about 40 per cent of the ordinary share capital, has been split almost evenly between institutional investors and members of the senior management team.

Brunning grew rapidly in the advertising boom of the 1960's, but was hit in the 1980's by its diversification into the leisure industry. In 1985, pre-tax profit was £377,000 on turnover of £56.7m.

However, it will now announce, in addition to its trading loss of about £200,000, an aggregate loss for the year close to £800,000.

The major costs for the year were the failure to let several properties, the loss of a major client and the closure of the Liverpool agency. In addition, the group's promotional handling subsidiary, PHS (Nelson), suffered from a sudden reduction in business activity and the ill-health of a senior member of staff. The company has incurred a substantial loss for the year, and consequently it has been closed down, increasing the losses to £800,000.

The new management team—with its significant stake in Brunning—is headed by Mr Trevor Shonfeld, who is currently managing director of the London agency and will become chief executive.

FT Share Information

The following securities have been added to the Share Information Services:

Nationwide Building Society 10⅛pc 6/4/87 (Section: Loans—Building Societies). Schering Aktiengesellschaft (Chemicals).

Music Sales in £8m bid for Boosey & Hawkes

BY MARTIN DICKSON

PROPOSALS for an £8m takeover of Boosey & Hawkes, the music publishing and instrument business, were unveiled yesterday by Music Sales, a privately owned British sheet music publisher headed by American-born Mr Robert Wise. The approach has been rejected by Boosey.

A key feature of the plan is the separation of Boosey's publishing and instrument businesses, with the publishing going to Music Sales. The instrument side would be purchased by a consortium in which the current management could participate. This would be financed by Candover Investments, the venture capital company, and the new company might have as chairman Sir Ronald Halstead, who was ousted last autumn as chairman of Beecham, the pharmaceuticals group.

However, the offer is subject to a number of preconditions. These include the recommendation of the Boosey board and getting irrevocable acceptances for the 49.25 per cent stake held by Carl Fischer Inc, an American company. Carl Fischer, says Boosey, has indicated that it is not interested in selling its shares.

He described the approach as "an opportunistic attempt to obtain the company very much below its asset value and at a time when it is just recovering from a period in which it gradually went downhill."

Music Sales, advised by Bankers Trust, the US bank, is offering 215p in cash for each ordinary share and par for Boosey's preference shares. Boosey shares closed on Friday night at 200p, but stood at 132p in early April before Music Sales' first approach.

However, Bankers Trust indicated that an improved offer might be justifiable on the basis that negotiations were entered into with the Boosey board.

The announcement comes just two days after Boosey reported a pre-tax loss of £5m (loss of £82,000) for 1985.

Mr Ronald Asserson, the new chairman, said yesterday it was significant that Carl Fischer, which was best placed to know the company's prospects, had rejected the approach.

FKI buys Thorn EMI division for £11.7m

FKI Electricals, a rapidly expanding electrical and electronic engineer, is buying for £11.7m cash the engineering and components division of Thorn EMI.

The deal comprises five companies; Clarkson International Tools, EMI-MEC, Keyswitch Varley, Thorn EMI Panelgraphic, and Thorn EMI Electrical Components.

Thorn directors say the disposal represents another step in its planned withdrawal from business areas—in this case mechanical engineering and components—which are not relevant to its strategy of concentrating on core businesses of high technology and consumer products.

The purchase is FKI's largest since its full Stock Exchange listing in 1983, the last deal being the acquisition of four companies in the transport equipment division of the TI Group, last November.

FKI directors said then that they expected the group's growth record to continue.

Offer for P-E Intl. only just covered

The offer for sale of shares in P-E International, the management consultants, was only just covered at the minimum 165p tender price.

Applications for up to 100,000 shares will be met in full, while applications for more than 100,000 shares, will receive 84 per cent of the number applied for.

● The application list in respect of the offer for sale of 8m John Haggas ordinary was oversubscribed. The basis of allotment will be announced on Monday.

● At Arlington Securities, the application list in respect of the offer for sale of 8.7m ordinary was heavily oversubscribed, and the allotments will also be announced on Monday.

NatWest

In the table listing NatWest's capital raising on May 15, the sum of the primary capital floating rate notes issued in May 1985 was $1bn and not $100m as stated.

Guernsey consortium rescues Intervision

MR DAVID QUAYLE, deputy chairman of Television South and the founder of B & Q (Retail), the DIY retailing group now owned by Woolworth, has stepped in with a Guernsey-based consortium to rescue Intervision Video, troubled USM-quoted video tape distributor.

Intervision's main business is leasing pre-recorded video cassettes to video rental shops. Profits began to slump in 1984 as an increasing number of its customers went out of business in a saturated market.

In the 17 months to November 1984 the company incurred pre-tax losses of £523,000 against profits for the previous year of £1.8m. Losses for the six months to May 1985 were £186,000 and there have been no figures since.

Under the reconstruction, the existing share capital will be reduced in effect to a twentieth through the replacement of every 10 shares of 10p with 1 new share of 5p.

The Guernsey consortium will then subscribe £400,000 for 8m of the new ordinaries and existing shareholders will be invited to subscribe to a rights issue to raise another £345,000.

M & S Canada suspended

Marks & Spencer, the retailing group, yesterday declined to comment on the suspension of share dealings in its 57.2 per cent owned subsidiary, Marks & Spencer Canada, on Canadian stock exchanges last Friday. It said a statement would be issued in the next few days.

The suspension followed a sharp rise in the price of the shares and came amid speculation that Marks might be preparing to buy out the minority interests in the subsidiary.

SHARE STAKES

Changes in company shares announced over the past week include:

Hunting Petroleum Services—Director P. G. Edwards purchased 12,500 ordinary.

Aquascutum — G. M. Abrahams, chairman, acquired 388,792 A ordinary.

LDH Group — Chairman M. Ross sold 200,000 ordinary at 301p.

RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price p	+ or −	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
£130	F.P.	13/6	135	125	‡Antler 5p	125	......	a3.0	2.6	3.4	17.3
£125	F.P.	6/6	138	130	Comb. Lease Fin. 50p	138	......	L1.35	3.9	1.4	50.9
107	F.P.	—	122	113	Dalepak Foods 5p	121	......	R2.3	3.2	2.7	18.4
£155	F.P.	6/6	232	172	‡Davies (D.Y.) 5p	230	−2	u3.4	2.7	2.1	24.6
£130	F.P.	6/6	151	140	‡Debfor 10p	140	−4	u4.0	2.7	4.0	33.2
—	—	—	35	27	German Secs. Warrts.	32	......	—	—	—	—
£120	F.P.	18/6	128	121	‡Green (E) & Part 5p	121	......	R3.4	2.7	4.0	19.0
120	F.P.	30/5	130	117	Ipeco Hldgs 10p	120	......	u2.7	3.2	3.7	13.7
104	F.P.	—	118	94	Jarys Hotel	94	......	u3.75	2.3	5.8	10.4
180	F.P.	23/6	187	157	Lee International 10p	157	......	R3.8	2.9	3.4	14.3
£70	F.P.	14/5	93	80	‡Lodge Care	89	......	u2.0	2.6	3.2	32.5
[illegible]	F.P.	—	60	49	Merlin Int'l Props	60	+6	u0.58	2.0	1.3	66.4
157	F.P.	—	157	149	‡Monotype Corpn 10p	153	......	R4.4	1.6	4.1	15.2
£105	F.P.	6/6	132	112	‡Masterlin 20p	132	......	u3.0	2.8	3.2	32.7
[illegible]	F.P.	—	102	78	NMC Invs. Wrrts.	80	......	—	—	—	—
75	F.P.	13/6	89	81	River Merc GC&IT Inc	88	−1	—	—	—	—
10	F.P.	11/7	11½	10¼	Do. Cap.	10¼	−¼	—	—	—	6.5
[illegible]	F.P.	—	900	700	Radiae 5p	720	−5	b10.75	—	2.6	—
[illegible]	F.P.	6/6	700	575	Schroders £1N/V	575	......	u3.27	1.6	6.3	14.2
£72	F.P.	13/6	74	72	‡Splash Prods. 10p	73	+1	u2.49	2.3	2.7	21.9
£140	F.P.	6/6	241	128	Tech. Prods. 10p	128	......	R2.0	3.7	1.6	24.2
160	F.P.	6/6	185	177	Tip Top 10p	180	......	u4.5	1.9	4.3	11.9
£100	F.P.	23/6	102	99	‡Usher (Frank) 5p	100	......	R4.1	3.1	3.8	12.1
145	F.P.	—	158	150	Westbury 10p	152	−5	L5.5	1.6	5.6	18.7
£130	F.P.	—	139	123	‡Worcester 10p	140	......				

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price £	+ or −
99.999	£25	11/7	27¼	24¾	ASDA Props. 10⅜% 1st. Mt. Deb. 2011	26	......
95.527	F.P.	16/4	107¾	104½	Brit. Land 10½% 1st. Mort. Deb. '19/24	107¾	—
100	£10	—	10	10	Cambridge Water 10% Red Deb '96-98	10	—
£100	£10	3/7	11¼	10¼	Colne Valley Water 10% Red. Deb. '96/98	10¾	—
£100	£10	3/7	10½	10	Do. 6¼% Red. Pref. '92/94	10	—
98.146	F.P.	24/10	99½	98¼	Estates Prop. Inv. 10% 1st. Mt. Deb. 2011	99	—
97.963	£25	24/10	25¾	24½	Gt. Portland 6% Conv. Cnv. Red. Pref. 2000	24¼	−⅛
¶¶	F.P.	—	120	109½	Hanson Tst. 10% Conv. Un. Ln. '07–12	117½	−⅛
‖	F.P.	29/5	111p	103p	Intl. Leisure 7¾% Cnv. Cum. Red. Pref.	108p	—
105.523	£25	—	26	24¼	Land Secs. 10% 1st. Mort. Deb.25	24¼	−⅛
100p	F.P.	14/5	112p	103p	‡Lodge Care 7½% Cum. Cv. Red. Pf. '91-96	118p	—
99.951	£40	14/7	42	39¾	Lon. Prov. Shop 10% 1st. Mtg. Deb. 2026	45¾	—
100	£10	—	10	10	Mid Southern Water 10% Red Deb '95-98	10	—
—	F.P.	—	99⅝	99⅝	Nationwide Bld Soc 9¾% 27/4/87	99⅝	—
—	F.P.	—	100	99¾	Do. 9¾% Bds 18/5-87	100	—
99.625	£40	30/6	43¼	38¾	Peel Hldgs. 9¾% 1st. Mort. Deb. 2011	10½	−⅛
97.179	£30	—	30½	30	Portugal 9% Ln. 2016	30½	+⅛
99.888	£40	1/8	44	41½	Queens Moat 10¼% 1st. Mort. Deb. 2020	42¾	−⅛
¶¶	F.P.	29/5	108p	102p	Spong 7% Cnv. Cum. Red. Pref.	105p	—
99.480	£25	18/7	31¼	24¾	S.E. 10¼% Mort. Deb. 2016	26	−⅛
£100	£50	—	50¾	49¾	Witan Inv. 8½% Deb 2016	49¾	−⅛

"RIGHTS" OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price p	+ or −
35	Nil	20/6	27pm	24pm	Ashley Ind. Tst. 'W'	24pm	......
310	Nil	—	44pm	39pm	Burmah £1	40pm	+1
205	Nil	20/6	62pm	47pm	Connells Est. Agents	50pm	......
235	F.P.	9/6	268	240	EIS	240	−2
222	Nil	4/7	13pm	4pm	F & C Eurotrust	3pm	......
125	Nil	4/7	32pm	9pm	Hestair	29pm	−2
400	Nil	30/6	67pm	13pm	Low & Bonar 50p	19pm	−14
103	Nil	27/6	19pm	10pm	Pres. Entertain 50p	12pm	......
113	Nil	27/6	48pm	38pm	Rainers 10p	42pm	......
500	Nil	12/6	105pm	75pm	R[illegible] 20p	75pm	−5
705	Nil	20/6	65pm	30pm	Saatchi & Saatchi 10p	30pm	......
¶¶	F.P.	—	18	13½	St. Modwen Props. 10p	16½	−1
225	Nil	13/6	17pm	5pm	Sale Tilney	5pm	......

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimates. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. F Forecast dividend cover on earnings updated by latest interim statement. H Dividend and Yield based on prospectus or other official estimates for 1987. L Estimated annualised dividend, cover and p/e based on latest annual earnings. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. t Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." §§ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ■ Allotment price. ‡ Unlisted securities market. ‡‡ Dealt in under Rule 535 (3). ¶ Dealt in under 535 (4) (a) †† Official London listing.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
*Allied Irish Banks	May 21	Final 5.0
Amersham Intl	June 10	Final 3.8
Argyll Group	June 11	Final 4.15
*ANZ	May 19	Interim 15 cts
*Assoc British Foods	May 19	Final 3.7
*Avana	June 23	Final 6.75
BTP	June 18	Final 2.3
*Bass	May 21	Interim 3.7
Beecham	June 12	Final 6.2
*Bibby (J.)	May 20	Interim 1.0
*Boots	May 29	Final 4.0
British Land	June 20	Final 1.75
*British Telecom	June 19	Final 3.9
*Brown (Matthew)	May 19	Interim 2.15
Cape Industs	June 18	Final nil
Cater Allen	May 23	Final due
Centrovincial Estates	June 18	Final 3.0
*Coalite	May 28	Final 4.65
*Country and New Town	May 20	Final 1.0
*Courtaulds	May 29	Final 3.6
Dawson Intl	June 20	Final 5.6
De La Rue	June 4	Final 21.75%
Dobson Park	May 31	Interim 1.9
Electrocomponents	June 10	Final 3.65
Electronic Rentals	June 10	Final 2.065
Finlay (J.)	June 13	Final 2.15
Fitch Lovell	June 20	Final 6.7
Gt Portland Estates	June 12	Final 5.0
*Greenall Whitley	May 22	Interim 2.073
Hanson Tst	June 4	Interim 1.5
*Harrisons and Crosfield	May 28	Final 15.5
Hazlewood Foods	June 10	Final 11.429
Hill Samuel	May 31	Final 8.3
Intl Signal	June 13	Final 1.5 cts

	Date	Announcement last year
London Intl	June 20	Final 2.6
*London and Northern	May 21	Final 3.05
Lond Scottish Finance	June 17	Interim 0.9
*MEPC	May 28	Interim 2.5
*Metal Box	June 10	Final 11.15
Meyer Intl	June 18	Final 3.45
*Mitchell Somers	June 19	Final 1.75
Norcros	June 4	Final 6
*Northern Foods	July 1	Final 3
Pegler Hattersley	June 5	Final 9.25
*Pilkington	June 11	Sec Int 7.5
*Plessey	May 22	Final 2.575
Powell Duffryn	June 19	Final 10.67
*RHM	May 20	Interim 1.84
*RHP	May 22	Interim 1.65
*Redland	May 29	Final 6.925
Reed Intnl	June 5	Final 12.75
Saatchi and Saatchi	May 21	Interim 5.29
Sainsbury (J.)	May 21	Final 3.1
600 Group	June 13	Final 3.16
Smith Brothers	May 29	Final 4.0
Staffs Potts	May 28	Interim 1.0
Staveley Inds	June 13	Final 11.0
*Tesco	May 28	Final 3.1
*Unigate	June 16	Final 6.2
Union Discount	June 17	Interim 11.0
*United Scientific	May 19	Interim 2.2
Valor	June 12	Final due
*Whitbread	May 21	Final 4.9
*Wolverhampton & Dudley	May 29	Interim 2.85

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

FINANCIAL TIMES STOCK INDICES

	May 16	May 15	May 14	May 13	May 12	May 9	1986 High	1986 Low	Since Compilation High	Since Compilation Low
Government Secs.	91.54	91.98	92.43	91.87	91.60	93.26	94.51	80.39	127.4	49.18
Fixed Interest	96.74	96.89	97.10	96.80	96.86	97.24	97.51	86.55	150.4	50.53
Ordinary	1289.5	1302.6	1320.0	1341.8	1330.6	1330.3	1425.9	1094.3	1425.9	49.4
Gold Mines	245.1	244.3	251.0	253.6	258.1	258.4	357.0	244.8	734.7	43.5
FT-Act All.Share	772.94	779.75	786.41	797.09	789.37	788.30	838.39	664.42	838.39	61.92
FS.SE100	1564.9	1575.7	1594.3	1623.3	1603.8	1601.6	1717.6	1370.1	1717.6	986.9

Company Notices

CLASSIFIED ADVERTISEMENT RATES

	Per line (min. 3 lines) £	Single column cm (min. 3 cms) £
Commercial & Industrial Property	11.50	39.00
Residential Property	9.00	30.00
Appointments	12.00	41.00
Business, Investment Opportunities	11.50	38.00
Business for Sale/Wanted	11.50	39.00
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CONSTRUCTION CONTRACTS

Norwich Union's largest redevelopment

BY JOAN GRAY, CONSTRUCTION CORRESPONDENT

MOWLEM MANAGEMENT has won a contract to act as construction adviser on the Norwich Union Insurance Group's £110m scheme to redevelop the Bentall centre at Kingston-upon-Thames in south west London.

The contract — for Norwich Union's largest property investment to date — involves working from the earliest stages with the developer and the architects, Building Design Partnership.

Mowlem will advise on the best ways of building and organising the project, and on how it should be programmed and costed.

The contract for the actual construction work — which it is estimated will cost up to £80m — will be awarded separately.

"Our job is to work out the best way of building the scheme and to spot the problems in advance," said Mr John Marshall, managing director of Mowlem Management.

He describes the construction adviser approach as "part of a revolution in the construction industry." It provides a way out of what can be an almost adversarial relationship between the builder and developer, he says, by "breaking down the barriers between them to make sure the client gets the building he wants, on time."

Mowlem was awarded the contract as adviser after submitting its proposals in competition with other contractors. The company has a track record of working with Norwich Union on earlier developments.

"We've already worked with BDP and Norwich Union on a difficult earlier project, the Redhill Quadrant Scheme, and tackling that together gave us quite a respect for each other," said Mr Marshall.

The Bentall's scheme is on a far larger scale than the Redhill project. It involves redeveloping the department store site — while keeping the shop open for trading — to create a new department store behind the existing historical facade. It also includes 100 extra shops, food court and car park.

The Aston Webb facade will be retained.

Building two computer centres

J. M. JONES AND SONS (HOLDINGS), Maidenhead, has won two contracts, together worth over £13m, to construct computer centres in Poole, Dorset, and Theale, Berkshire. A single-storey computer building of 6,700 sq metres, together with a two-storey administration block, is being built for Barclays Bank at Cabot Lane, Poole. The £8.8m contract is for a steel-framed building which will be clad in brickwork and roofed in pitched tile. Some 40 per cent of the value of the contract will consist of mechanical and electrical items. Completion is scheduled for August 1987.

At Station Rd, Theale, Prudential Leasing Services chose Jones as main contractor on the second phase of its computer suite and speculative warehouse scheme. The £5m contract involves construction of a 3,100 sq metres building for the Prudential's own use, together with 445 sq metres of warehouse space which will be let to local businesses as part of the second phase of the Newbury development plan. The steel frame development will be clad in metal sheeting with an aluminium roof. The computer suite is due for completion in April 1987 and the warehousing a few weeks later.

*

Contracts worth over £4m have been won in the north of England and Wales by roofing and cladding contractor BRIGGS AMASCO. The largest, worth over £850,000, is for the complete reroofing of the Fox Wire factory in Stockbridge, Sheffield.

Manchester chocolate factory

IDC, Stratford-upon-Avon, has been awarded a £12m design and management contract by United Biscuits (UK) for a chocolate manufacturing plant to be built on a UB Biscuits site at Crossley Rd, Manchester. The new plant will be 82 metres long by 37 metres wide and will incorporate two bay portal frames nine metres to the eaves with a central tower rising to 18 metres. This will provide a production unit which will include automatic bulk handling of raw materials and processing lines. Work on site starts in July, with completion scheduled for November 1988.

Refurbishing Dartford Tunnel

FAIRCLOUGH CIVIL ENGINEERING has been awarded a £4.3m contract by Kent and Essex County Councils (acting through the Dartford Tunnel Joint Committee) for the refurbishment of the western tunnel (northbound) of the two Dartford tunnels under the River Thames, between Kent and Essex. Already underway, the contract is for improvement of internal finishes, and modernisation and restoration of efficiency of the mechanical and electrical services throughout the tunnel, which was opened in 1963. The project will include replacement of the mosaic-tile finishing with enamelled-steel panels. Work is to be carried out only during night-time to minimise interference with traffic flows. Contract completion is programmed for mid-1987.

Housing plan in Wythenshawe

Contracts worth over £3m for house building and repair work have been won by ROWLINSON CONSTRUCTIONS, Poynton. Under the biggest scheme, worth £1.58m, Rowlinson will build 66 homes as phase 1 of a Manchester City Council development in Wythenshawe Road, Wythenshawe. The 15-month contract, which begins on June 30, includes 44 one-bed flats, 18 two-bed flats and a terrace of four houses, together with all road and sewer work.

Seven-storey office building

RUSH & TOMPKINS has won five construction contracts in the south east worth more than £9m, including a seven-storey office building in London for Mallore Securities worth £4m. Work has started on the 45,000 sq ft building at 9-13 George Street, W1, which consists of a basement, five floors of offices and two penthouse flats. The structure is a reinforced concrete frame with piled foundations, ribbed slab floors, brick cladding and asphalt and lead roof coverings. Completion is scheduled for October 1987. In Canterbury work has started on a 35-week contract to convert an existing warehouse at Rheims Way into a computer centre for British Telecom. The £1.8m contract includes construction of a concrete floor slab, a mezzanine floor and stairs, roof coverings, external wall cladding and internal partitions and services.

Upgrading the heating

HADEN YOUNG has received three orders together worth £9.5m. Two are for the London Borough of Southwark and involve upgrading housing estate heating systems. Under a £3.2m contract at the Brandon Estate, the company will extend a boiler house to accommodate two additional boilers and will install distribution mains together with radiator heating to 558 homes. At North Peckham, a £4m contract involves installation of radiators in 70 blocks of low-rise flats, together with associated building and electrical work. The third contract, worth £2.3m, is for Phase II work at Eastbourne District General Hospital, to provide mechanical and medical services installations to new clinical and psychiatric blocks.

*

OSBORNE GROUP has won two contracts valued at over £2.2m. Already underway is a job in the Stoneborough Shopping Centre, Maidstone, to convert the former 60,000 sq ft Tesco store into 14 smaller units on behalf of the Prudential Assurance Company. Valued at £1.4m, the phased programme also involves improvements to a pedestrian bridge. The other contract, worth £860,000, involves construction of a 15,000 sq ft office block for Centrovincial Estates at Tinsley Lane, Crawley.

Contracts & Tenders

Legal Notices

THE COMPANIES ACT, 1985
LUCAS VENDING SERVICES LIMITED

NOTICE IS HEREBY GIVEN pursuant to section 588 of the Companies Act 1985 that a Meeting of the Creditors of the above-named Company will be held at the offices of Leonard Curtis and Partners, 3rd Floor, Peter House, Oxford Street, Manchester M1 5AB, on the 30th day of May 1986 at 12.00 o'clock midday. Proxies to be used at the Meeting must be lodged at the offices of Leonard Curtis and Partners, Peter House, Oxford Street, Manchester M1 5AB, not later than 4 o'clock in the afternoon on 29th May 1986.
Dated this 9th day of May 1986.
By Order of the Board,
E. LUCAS,
Director.

JULIETTA SHOES LIMITED
(In Voluntary Liquidation)

NOTICE IS HEREBY GIVEN, in pursuance of Section 595 of the Companies Act 1985, that General Meetings of the Members and Creditors of the above-named Company will be held at the offices of Single & Company, Chartered Accountants, New Broad Street House, 35 New Broad Street, London EC2M 1NH, on 29th May 1986 at 2.30 pm and 2.45 pm in the afternoon respectively, to receive an account showing how the winding-up of the Company has been conducted and its property disposed of and to hear any explanation that may be furnished by the Liquidator and to pass a Resolution as to the disposal of the books, accounts and documents of the Company.
S. K. SINGLA, F.C.A.,
Liquidator.
12th May 1986.

IN THE MATTER OF THE COMPANIES ACT, 1985
AND IN THE MATTER OF M.M.C. SERVICES LIMITED

NOTICE IS HEREBY GIVEN pursuant to section 588 of the Companies Act 1985 that a Meeting of the Creditors of the above-named Company will be held at Shelly House, 3, Noble Street, London EC2V 7DQ, on 22nd May, 1986 at 12 noon for the purposes mentioned in Section 589 et seq of the Companies Act 1985.
Dated this 12th day of May, 1986.
By Order of the Board,
SHARKAWI ALIS,
Director.

THE COMPANIES ACT, 1985
SELLSURE LIMITED

NOTICE IS HEREBY GIVEN pursuant to section 588 of the Companies Act 1985 that a Meeting of the Creditors of the above-named Company will be held at the offices of Leonard Curtis & Partners, 48, Rodney Street, Liverpool L1 9AA, on the 22nd day of May 1986 at 12.00 midday for the purposes mentioned in Sections 589 and 590 of the said Act. Proxies to be used at the Meeting must be lodged at the offices of Leonard Curtis & Partners, 48, Rodney Street, Liverpool L1 9AA, not later than 4 o'clock in the afternoon on Wednesday 21st May 1986.
Dated this 7th day of May 1986.
By Order of the Board,
F. WILLIAMS,
Director.

S. H. ABINGTON LIMITED

NOTICE IS HEREBY GIVEN pursuant to section 588 of the Companies Act 1985 that a Meeting of the Creditors of the above-named Company will be held at the offices of Leonard Curtis & Co (3rd Floor), 30 Eastbourne Terrace, London W2 6LF, on Tuesday the 3rd day of June 1986 at 12.00 midday, for the purposes provided for in Sections 589 and 590.
Dated this 12th day of May 1986.
H. PRESS,
Director.

Art Galleries

THACKERAY GALLERY, 18, Thackeray St. W8. 01-937 5883. JAMES GUNNELL — Watercolours. 16 May.

BROWSE & DARBY, 19, Cork Street, London, W1. NICHOLAS VOLLEY. Recent Paintings.

COLNAGHI, 14, Old Bond St., W1. 01-491 7408. ENGLISH DRAWINGS AND WATERCOLOURS. Until 23 May. Mon.-Fri. 10-6; Sats. 10-1.

Clubs

EVE has outlived the others because of a policy of fair play and value for money. Supper from 10-3.30 am. Disco and top musicians, glamorous hostesses, exciting floorshows. 189, Regent St., W1. 01-734 0557.

1986 No. M.P. 1016
IN THE SUPREME COURT OF HONG KONG
HIGH COURT
MISCELLANEOUS PROCEEDINGS

IN THE MATTER OF CANADIAN & ORIENTAL OIL LIMITED
AND IN THE MATTER OF THE COMPANIES ORDINANCE (CHAPTER 32)

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that, by an order dated the 14th day of May, 1986 made in the above matters, the Court has directed a Meeting to be convened of the holders of the Ordinary Shares of US$1.00 each in the capital of Canadian & Oriental Oil Limited (hereinafter called "the Company") other than those which are beneficially owned by Ranger Oil Limited, for the purpose of considering and, if thought fit, approving, with or without modification, a Scheme of Arrangement proposed to be made between the Company and the holders of its Ordinary Shares of US$1.00 each, other than those which are beneficially owned as aforesaid, and that such Meeting will be held at 8th Floor, Prince's Building, Hong Kong on Thursday, the 12th day of June, 1986 at 10.00 a.m., at which place and time all the holders of the Ordinary Shares of US$1.00 each in the capital of the Company other than those which are beneficially owned as aforesaid are requested to attend.

A copy of a printed composite document containing the said Scheme of Arrangement and the Explanatory Statement required to be furnished pursuant to section 166A of the above-mentioned Ordinance together with forms of proxy, can be obtained by any person entitled to attend the said Meeting during usual business hours on any day prior to the day appointed for the said Meeting (other than a Saturday afternoon, a Sunday or public holiday) from the registered office of the Company, 8th Floor, Prince's Building, Hong Kong and from the solicitors to the Company, Johnson, Stokes & Master, 11th Floor, Alexandra House, 16-20 Chater Road, Hong Kong.

The said shareholders may vote in person at the said Meeting or they may appoint another person, whether a member of the Company or not, as their proxy to attend and vote in their stead.

In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the relevant joint holding.

It is requested that forms appointing proxies be lodged at the registered office of the Company, 8th Floor, Prince's Building, Hong Kong, not later than 48 hours before the time appointed for the said Meeting, but if forms are not so lodged they may be handed to the Chairman at the said Meeting.

By the said Order the Court has appointed H. FOOK-WO or failing him, H. FERRAND to act as Chairman of the said Meeting and has directed the Chairman to report the result thereof to the Court.

The said Scheme of Arrangement will be subject to the subsequent approval of the Court.
Dated the 17th day of May, 1986
JOHNSON, STOKES & MASTER.
Alexandra House,
11th Floor,
16-20 Chater Road,
Hong Kong.
Solicitors for the above-named Company.

CANADIAN & ORIENTAL OIL LIMITED

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the above-named company will be held at 8th Floor, Prince's Building, Hong Kong on Thursday, the 12th day of June, 1986 at 10.15 a.m. (or so soon thereafter as the meeting of the holders of the Ordinary Shares of the Company, other than those which are beneficially owned by Ranger Oil Limited, convened by direction of the Court for 10.00 a.m. on the same day and at the same place shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as a Special Resolution:

SPECIAL RESOLUTION

THAT:
(A) the Scheme of Arrangement dated the 17th day of May, 1986 proposed to be made between the Company and the holders of the Scheme Shares (as therein defined) in the form of the print which has been produced to this Meeting and for the purposes of identification signed by the Chairman hereof with any modifications thereof or additions thereto or conditions approved or imposed by the Court ("the Scheme") be and the same is hereby approved and
(B) for the purpose of giving effect to the Scheme:
(a) the share capital of the Company be reduced from US$10,000,000 to US$4,370,390 by cancelling and extinguishing the 5,629,610 Scheme Shares (as defined in the Scheme);
(b) forthwith and contingently upon such reduction of capital taking effect the authorised share capital of the Company be increased to its former amount of US$10,000,000 by the creation of 5,629,610 new Ordinary Shares of US$1.00 each; and
(c) on the Effective Date (as defined in the Scheme) the Company apply the credit of US$5,629,610 which will arise in its books of account as a result of such reduction of capital in paying up in full at par the 5,629,610 new Ordinary Shares of US$1 each to be created as aforesaid which shares shall be allotted and issued, credited as fully paid, to Ranger Oil Limited or its nominees.

By Order of the Board.
H. FERRAND.
Secretary.

Dated the 17th day of May, 1986.
Registered Office:
8th Floor,
Prince's Building,
Hong Kong.

Notes:
(1) A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and on a poll to vote instead of him. A proxy need not be a member of the Company.
(2) Forms of proxy must be lodged at the registered office of the Company, 8th Floor, Prince's Building, Hong Kong, not less than 48 hours before the time appointed for holding the meeting.

Company Notices

MUNICIPAL FINANCE AUTHORITY OF BRITISH COLUMBIA

C$25,000,000 11¾% Bonds due 1993
On May 5, 1986 Bonds for the amount of C$1,792,000 have been drawn in the presence of a Notary Public for redemption on June 15, 1986
The following Bonds will be redeemable coupon due June 15, 1987 and following attached:
17,155 to 18,946 incl.
Amount purchased on the market. C$79,000. Amount outstanding. C$19,960,000
The Fiscal Agent
KREDIETBANK
S.A. Luxembourgeoise
Luxembourg, May 15, 1986

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

May 20-22
RoSPA International Safety Exhibition (021-780 4171) NEC, Birmingham

May 20-24
Chelsea Flower Show (01-834 4333) Royal Hospital, SW1

May 23-June 1
National Home, Garden and Leisure Show — LIFESTYLE (021-222 9341) NEC, Birmingham

May 29-June 7
Fine Art and Antiques Fair (01-385 1200) Olympia

June 3-5
Northern Electronics Exhibition —ELECTRONORTH (0892 36685) G-Mex Centre, Manchester

June 3-6
International Chemical and Process Engineering Show and Conference — EUROCHEM (01-891 5051) NEC, Birmingham

June 7-8
International Air Fair and Trade Exhibition (0959 71111) Biggin Hill

June 8-12
Shop Equipment and Display Exhibition, including Point of Sale—SHOPEX INT (01-868 4499) Olympia

June 11-21
Grosvenor House Antiques Fair (0799 26699) Grosvenor House, W1

June 23-26
Institute of Leisure and Amenity Management Conference and Exhibition (0491 873558)

June 24-26
Advanced Materials Conference and Exhibition (01-868 4466) Wembley Conference Centre

OVERSEAS TRADE FAIRS

June 10-13
International Banking and Finance Services and Technologies Exhibition — TECHNOBANK (0494 775444) Geneva

May 13-15
Production, Organisation and Technical Aspects of Shows & Meetings, Trade Fair and Congress — SHOWTECH (01-740 4444) Berlin

May 21-23
International Cargo Services and Equipment Exhibition—INTERCARGO '86 (07072 75641) Boston

May 26-30
Automated Manufacturing Conference and Exhibition—AUTOMACH 86 (US) (313 271 1500) Sydney

May 28-June 4
Mechanical Handling Machine Tool & Products Exhibition (01-439 3964) Paris

June 3-6
Retail and Distributive Exhibition — RETAIL EUROPE (0734 794161) Amsterdam

BUSINESS AND MANAGEMENT CONFERENCES

May 20
CBI: Contract bonds and guarantees (01-379 7400) Centre Point, WC1

May 22
The Institute of Directors: How to work out the winning streak (01-839 1233) 116 Pall Mall, SW1

May 25-28
International reinsurance forum (Panama 63-7555) Panama

May 26-30
International Advertising Association: World advertising congress (Chicago (312) 644 5997) Chicago

May 27-29
Banking Association of Ticino and City of Lugano: International banking symposium (01-251 9321) Lugano

May 28-29
FT Conferences: Telecommunications and the European business market — planning tomorrow's trade routes (01-621 1355) Hotel Inter-Continental, W1

May 28-29
FT Conferences: The 1986 Motor Industry Conference — vehicle distribution and marketing (01-621 1355) Geneva

June 2-3
Avmark International's annual conference on European aviation, European liberalisation and its effect on aircraft demand and values (01-821 6788) Tara Hotel, W8

June 9-10
FT Conferences: World Electronics — Strategies for tomorrow's markets (01-621 1355) Hotel Inter-Continental, W1

June 12
The Institute of Petroleum: Sources of information for the offshore industry (01-636 1004) New Cavendish Street, W1

June 16
LSE: Energy supply options in a resource-full national economy —the case of the UK (01-405 7686) London, WC2

June 18-19
FT Conference: World gold in 1986 (01-621 1355) Hotel Inter-Continental, W1

June 18
Institute of Directors: UK companies — the revenue offensive (01-839 1233) 116 Pall Mall, SW1

June 18
RIPA: Government and the private sector (01-222 2248) London Business School, NW1

June 18-20
1986 World Congress on Management Development (0234 48338) Royal Lancaster Hotel, W2

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

THE WEEK IN THE COURTS

US product liability law can lead to unfairness

BY A. H. HERMANN, LEGAL CORRESPONDENT

"IT IS one world" and although this piece of wisdom has now become a party political slogan, it is increasingly true. Even without the Chernobyl disaster, we would be reminded of it by the US courts which tend to protect US consumers against damage caused by faulty products wherever manufactured and even when the manufacturer had only a vague awareness that his product might reach the American market as a component of another product made elsewhere, outside the US.

Unfashionable as it is, I must *confess a certain sympathy* for the eagerness of the US state courts to protect US consumers, irrespective of where the acts which had adverse consequences took place. After all, it has always been accepted that if a bullet is fired across the frontier and hits some one, that is a sufficient ground for criminal prosecution by the courts of the country where the injury occurred. By similar logic, the European Court ruled some years ago that pollution of the Rhine by waste released upstream could be *viewed downstream*, where the pollution took effect, as an act done *in another country*.

As the world grows smaller and the world market integrates, with the result that manufacturers cannot foresee where their mass-produced goods will end, it would be good to have international harmonisation of product liability laws and an international convention on jurisdiction over product liability claims. Unfortunately, we have neither and no prospect of getting them within the foreseeable future.

Manufacturers exporting their products worldwide have to live, *therefore, with the fact that* the US courts award compensation for the effects of faulty products, and sometimes for misuse of perfectly sound products, on terms incomparably more generous than the courts of any other country. As a result, everyone, if he can, tries to sue in the US for his product liability claims—and also anti-trust claims—even if the manufacturer's connection with the US markets is of the flimsiest type.

Such a case came before the Supreme Appeal Court of California when a Taiwanese tyre manufacturer, who was held responsible for a motor-cycle accident in California, thought to involve as a third party a Japanese tyre valve manufacturer, whose valve was used in the blown tyre which caused the accident.

The valve manufacturer, Asahi Metal Industry Co Ltd, supplied less than 1.25 per cent of its products to the Taiwanese tyre manufacturer. Only 22 per cent of the Taiwanese manufacturer's tyres used Asahi valves. Asahi had no control over the distribution of tyres fitted with its valves, did not ask that they be marketed in California and was not asked to design any valve assemblies to comply with specific Californian standards.

When the dispute reached the California Court of Appeal, this said that it had no personal jurisdiction over Asahi as "It would not be reasonable to require Asahi to respond to California solely on the basis of ultimately realised foreseeability that the product into which its component was embodied would be sold all over the world including California."

As the world market integrates manufacturers cannot foresee where their goods will end

However, the Californian Supreme Court thought otherwise. *It held that as California* had a substantial interest in protecting its consumers, and both California and the Taiwanese tyre manufacturer had an interest in avoiding inconsistent results and a multiplicity of litigation, the dispute should be governed by the substantive law of California and fell under the jurisdiction of Californian courts.

Asahi appealed to the *Supreme Court of the US and this agreed on May 3 (No 85-693) to review the Californian* decision. The Washington law firm Sutherland, Asbill & Brennan submitted an *amicus curiae* brief on behalf of the Confederation of British Industry, and the American Chamber of Commerce in the UK.

We must now keep our fingers crossed that the foreign manufacturers, one in Japan and the other in Taiwan, do not settle their dispute before the Supreme Court can consider it, as happened in the case of *Messerschmitt Bolkow Blohm, GmbH v Walker* concerning extraterritorial discovery orders which I reported in this column *on April 28. In my view*, there are reasonable prospects that, given the opportunity to consider this matter, the Supreme Court will restrict the exorbitant jurisdictional claims of the state courts. Such a decision would reduce the insecurity of UK and other non-US manufacturers and would diminish the likelihood of further political conflicts.

However, the hope that the *Supreme Court will take the* side of reason is not supported *by recent decisions of US* courts refusing to accept jurisdiction over foreign liability claims against US manufacturers. Thus, in *Piper Aircraft Co v Reyno*, the US Supreme Court held in 1981 that the foreign plaintiffs could not pursue a product liability claim against a US manufacturer in a US court as Scotland was a more appropriate forum for the suit. The fact that, if successful, the claimant had the prospect of being awarded much higher damages in the US than in Scotland was not thought to be decisive.

Only last Monday Judge *Keenan of the District Court* for the South of New York (Manhattan) refused to exercise jurisdiction over the claims *of the* Indian victims of the Bhopal disaster against Union Carbide Corporation, *though it* imposed as a condition that Union Carbide (which is likely to come off much more cheaply in India) should submit to the jurisdiction of Indian courts, comply with their discovery orders, and abide by any judgment.

Legal logic would suggest that if Indian claims against American manufacturers belong before an Indian court, American claims against a Japanese manufacturer should be heard in the US. Such logic would, however, lead to gross unfairness because it would mean that in claims arising out of international trade, US exporters would get off cheaply while foreign manufacturers exporting, even indirectly, to America would have to bear the full brunt of US product liability laws.

One hopes also that the US Supreme Court will take into *account the requirement of* legal certainty. If a *Taiwanese* firm is allowed to haul a Japanese supplier before a Californian court over the alleged failure of a component which *the Japanese firm supplied without knowing* that it would be used *in a product marketed in* California, component suppliers everywhere will *face consider*able legal uncertainty.

The US rules of personal jurisdiction are limited by the constitutional requirement of fairness and reasonableness. They were developed in a series of decisions concerning the jurisdiction of one US state over defendants resident in another US state. Within the limits of fairness and reasonableness, personal jurisdiction was extended in step with the gradual integration of the American economy.

But, as the CBI brief points out: "There may be a common market within the United States, but there is as yet no common market within the world community." If personal jurisdiction over foreign firms were to be conceived as broadly as that over firms resident in another US state, that alone would be likely to lead to international complications.

It would threaten trade if international personal jurisdiction went further than *inter-state jurisdiction*

It would be even worse, and a threat to trade, if it was accepted that international personal jurisdiction went *further than inter-state personal* jurisdiction, and could be based *on conduct outside America* which had only an indirect *effect in the US in the stream* of international commerce.

Fortunately, the Supreme Court has already twice shown a deeper understanding of the problem than manifested in California. In *Helicopteros, 466 US 408* it denied personal jurisdiction in a case where the foreign defendant had far greater ties to the US than Asahi and in *Mitsubishi Motors Corporation v Soler Chrysler-Plymouth Inc* it held last year that the dispute should be arbitrated in Tokyo, reversing the lower court which held that US anti-trust policy precluded arbitration. So there is some *hope yet*.

THIS NOTICE DOES NOT CONSTITUTE AN OFFER FOR SALE AND THE STOCKS LISTED BELOW *ARE NOT* AVAILABLE FOR PURCHASE DIRECT FROM THE BANK OF ENGLAND. OFFICIAL DEALINGS IN THE STOCKS ON THE STOCK EXCHANGE ARE EXPECTED TO COMMENCE ON MONDAY, 19TH MAY 1986.

ISSUES OF GOVERNMENT STOCK

The Bank of England announces that Her Majesty's *Treasury* has created on 16th May 1986, and *has* issued to the Bank, additional amounts as indicated of each of the Stocks listed below:

£100 million 2½ per cent INDEX-LINKED TREASURY STOCK, 2003
£100 million 2½ per cent INDEX-LINKED TREASURY STOCK, 2009
£100 million 2½ per cent INDEX-LINKED TREASURY STOCK, 2013

The price paid by the Bank on issue was in each case the middle market closing price of the relevant Stock on 16th May 1986 as certified by the Government Broker.

In each case, the amount issued on 16th May 1986 represents a further tranche of the relevant Stock, ranking in all respects *pari passu* with that Stock and subject to the terms and conditions applicable to that Stock, and subject also to the provision contained in the final paragraph *of this notice*; the current provisions for Capital Gains Tax are described below.

Copies of the prospectuses for the Stocks listed above, dated 22nd October 1982, 19th October 1982 and 15th February 1985 respectively, may be obtained at the Bank of England, New Issues, Watling Street, London, EC4M 9AA.

Application has been made to the Council of The Stock Exchange for each further tranche of stock to be admitted to the Official List.

The Stocks are repayable, and interest is payable half-yearly, on the dates shown below (provision is made in the prospectuses for stockholders to be offered the right of early redemption under certain circumstances):

Stock	*Redemption date*	*Interest payment dates*
2½ per cent Index-Linked Treasury Stock, 2003	20th May 2003	20th May 20th November
2½ per cent Index-Linked Treasury Stock, 2009	20th May 2009	20th May 20th November
2½ per cent Index-Linked Treasury Stock, 2013	16th August 2013	16th February 16th August

Both the principal of and the interest on the Stocks are indexed to the General Index of Retail Prices. The Index figure relevant to any month is that published seven months previously and relating to the month before publication. The Index figure relevant to the month of issue of 2½ per cent Index-Linked Treasury Stock, 2003 and 2½ per cent Index-Linked Treasury Stock, 2009 is that relating to February 1982 (310.7); the equivalent index figure for 2½ per cent Index-Linked Treasury Stock, 2013 is that relating to June 1984 (351.9). These Index figures will be used for the purposes of calculating payments of principal and interest due in respect of the relevant further tranches of stock.

The relevant Index figures for the half-yearly interest payments on the Stocks are as follows:

	Relevant Index figure	
Interest payable	*Published in*	*Relating to*
May	October of the previous year	September
November	April of the same year	March
February	July of the previous year	June
August	January of the same year	December

The further tranches of 2½ per cent Index-Linked Treasury Stock, 2003 and 2½ per cent Index-Linked Treasury Stock, 2009 have been issued on an ex-dividend basis and will not rank for the interest payments due on 20th May 1986 on the existing Stocks. The further tranche of 2½ per cent Index-Linked Treasury Stock, 2013 will rank for a full six months' interest on 16th August 1986.

Each of the Stocks referred to in this notice is specified under paragraph 1 of Schedule 2 to the Capital Gains Tax Act 1979 as a gilt-edged security (under current legislation exempt from tax on capital gains on disposals made on or after 2nd July 1986, irrespective of the period for which the Stock is held).

Government statement
Attention is drawn to the statement issued by Her Majesty's Treasury on 29th May 1985 which explained that, in the interest of the orderly *conduct of fiscal policy, neither Her Majesty's* Government nor the Bank of England or their respective servants or agents undertake to disclose tax changes decided on but not yet announced, even where they may specifically affect the terms on which, or the conditions under which, these further tranches of stock are issued or sold by or on behalf of the Government or the Bank; that no responsibility can therefore be accepted for any omission to make such disclosure; and that such omission shall neither render any transaction liable to be set aside nor give rise to any claim for compensation.

BANK OF ENGLAND,
LONDON

16th May 1986

INTL. APPOINTMENTS

New chairman for Havas as privatisation looms

BY PAUL BETTS IN PARIS

MR PIERRE DAUZIER has been appointed chairman of Havas. He will have the delicate task of running the French advertising and communications conglomerate, Europe's largest media group, as it prepares for privatisation.

Havas is currently 50.26 per cent controlled by the French government but it is among the main targets for privatisation of the new Conservative Government of Mr Jacques Chirac, the Prime Minister.

Mr Dauzier, who is close to Mr Chirac, is expected to use all his diplomatic skills to ensure the management continuity of the group during this key moment in its history. Aged 47, he had been up to now the group's managing director, after rising steadily up the Havas ladder since joining the concern in 1963.

Mr Dauzier will take over from Mr Andre Rousselet, the former chairman who announced his plan to step down last month. Mr Rousselet was the first chairman of a state controlled group in France appointed by the former Socialist administration to resign after the victory of the right in the March elections. But Mr Rousselet, a close friend of President Francois Mitterrand, plans to continue heading the *Canal Plus* pay television network controlled by Havas. After a difficult start, the pay television channel is beginning to turn into a success story.

Together with privatisation, another crucial issue for Havas will be whether the group will maintain its current diverse range of activities or whether some of its operations will be shed. One operation which could be shed from the group is the *Havas Tourisme* travel business.

Among candidates believed to be interested in acquiring a major stake in the privatised Havas group is the Moet-Hennessy champagne and cognac concern which recently bought an 8.2 per cent shareholding in the Compagnie Luxembourgeoise de Telediffusion (CLT), the Luxembourg-based broadcasting group in which Havas is an important shareholder. Moet-Hennessy has made no secret of its interest in diversifying into the communications business in the context of the current deregulation of broadcasting in France.

De Benedetti aide joins Booz Allen

By Alan Friedman in Milan

MR MAULRIZIO MUSSATI, a senior aide to Mr Carlo de Benedetti, chairman of Olivetti, has joined the European operations of Booz Allen, the US management consultants. Mr Mussati served until two weeks ago on the international corporate finance side of CIR, Mr De Benedetti's main holding company. He also worked previously for Mr De Benedetti at Olivetti headquarters in Piedmont.

Mr Mussait's position at Booz Allen will see him handling business in the financial services sector. He will be based both in London and Milan. The 33-year-old Mr Mussati worked from 1980 until 1982 for the European Investment Bank in Luxembourg and Rome.

Japanese bank London post

MR JAN H. DALHUISEN is to join IBJ International, the London subsidiary of the Industrial Bank of Japan, in June as board member in charge of structuring and development. Mr Dalhuisen, who is 42, is secretary general of the International *Primary Market Association*.

Senior moves at Mobil

Mobil, the US based oil company, has made three top executive appointments as a result of the decision of Mr Alex H. *Massad, a director and member* of the executive committees of both Mobil Oil Corporation and the parent, Mobil Corporation, to retire in September after 40 years with the group.

Mr Paul J. Hoenmans president of the marketing and refining division, is to take over from Mr Massad as president of the exploration and producing division. Mr Hoenmans is also a director and member of the executive committee of both corporations and an executive vice president of Mobil Oil.

Mr Eugene A. Renna, vice president, planning and economics, for both corporations, will move into Mr Hoenmans' place as president of the marketing and refining division. Mr Renna, *currently a director* and member of the executive committee of Mobil Oil Corporation, has been elected a Mobil Oil executive vice president as from July 1.

Mr Lou A. Noto, general manager Middle East and chairman of Mobil Saudi Arabia, will succeed Mr Renna as vice president, planning and economics, for both corporations on July 1.

Mr Massad has been president of the exploration and producing division since 1977.

* * *

MR JERRY K MYERS is to become chief financial officer of TRW, the Cleveland electronics and automotive products concern, on August 1, on the retirement of Mr Charles R Allen. Mr Myers, who was chief administrative and financial officer of American Hospital Supply Corporation, joins TRW as an executive vice president on June 1.

* * *

MR FRANK J. TASCO, 58, has been elected chairman of Marsh and McLennan Companies, the international insurance brokers based in New York, and Mr A. J. C. Smith, 52, has been elected president. Mr Tasco remains chief executive, a position he assumed in January.

Mr John M. Regan steps down as chairman of the board, but is to continue as chairman of the executive committee until his retirement at the end of next month. He will remain on the board.

Mr Tasco had been president of Marsh and McLennan since 1984.

* * *

SEARS ROEBUCK and company, of Ohio, has announced that its merchandise group has elected two executives to newly created posts effective July 1. Mr Forrest Haselton is to be executive vice president southern retail operations and Mr Clifton Hooks executive vice president northern retail operations.

The moves follow a decision to streamline the merchandise group's field management

Singer makes technology re-alignment

SINGER COMPANY, the producer of aerospace electronics systems, has announced the establishment of two new high-technology business groups and the appointment of two executives to direct their operations.

Mr Terry W Heil, 48, becomes executive vice president, defence electronics group. He will be responsible for the Singer divisions engaged in command/control / communications and intelligence and electronic warfare; navigation/guidance; and tactical control. The divisions are Kearfott, N J; HRB, Pa.; Librascope, Calif.; and Dalmo Victor, Calif. Mr Heil was previously group vice president, government products group.

Mr William D Turner, 53, becomes group vice president, training systems group. He takes responsibility for operations in simulation systems, simulation-based training services, and vocational training. These divisions are Link Flight Simulation, N Y; Link Simulation Systems, Md; SimuFlite, Texas; and the education division, N Y. The Allen Corporation of Virginia, which Singer has an agreement in principle to acquire is also to be part of the group.

Mr Turner was previously president of the Link Flight Simulation division and will continue as acting president there.

"The establishment of these two groups reflects our previously announced intention to accelerate Singer's expansion in high-technology electronic markets and the field of simulation-based training services," says Mr William F. Schmied, Singer's president and chief operating officer.

BankAmerica Canada chief executive

MR JAMES SHELLEY has been appointed president and chief executive of Bank of America Canada, the offshoot of the California-based group. This follows the resignation of Mr William Wilson, 42, from these posts to pursue personal interests.

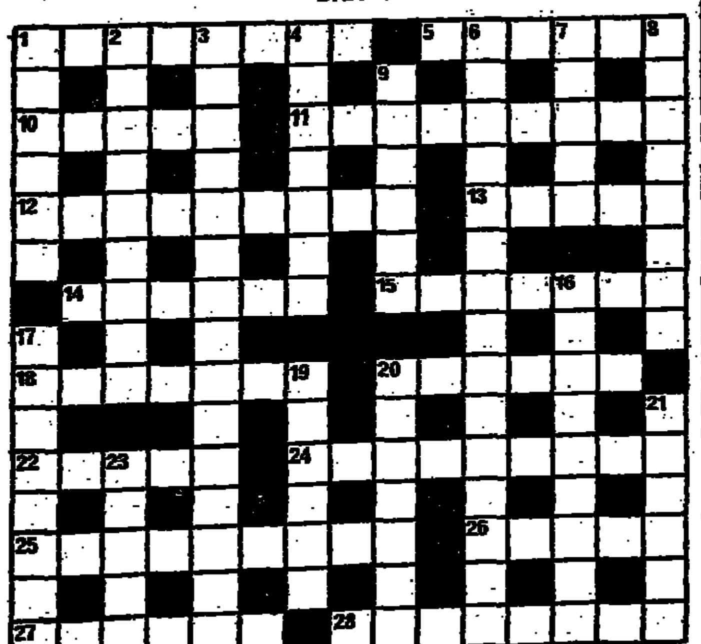
Mr Shelley, also 42, moves from managing a Bank of America section in New York specialising in services to other financial service companies.

Changes at Kidde

KIDDE, the New Jersey diversified industrial concern—the interests of which include the consumer and recreation fields and safety and security—has appointed Mr David R Ficca, 54, vice chairman, in succession to Mr Bernard N Ames, who remains a director.

F.T. CROSSWORD PUZZLE No. 6,025

DANTE



ACROSS

1 A personal representation (8)
5 Tremble a tiny bit (6)
10 It is up for approval (5)
11 It is a recurring theme in German opera (9)
12 Turned and twisted overmuch (9)
13 Note basic education contains nothing but fault (5)
14 Suit to change into? (6)
15 Army unit is also included in the project (7)
18 No gentleman, Sir Robin, when payments are due! (4, 3)
20 The know-all gets Dan in a temper (6)
22 A number order brick (5)
23 Proved to be a full member of the church (9)
25 The only one in a suit wearing a vest (9)
26 Yank goes round about East African republic (5)
27 New wars or old weapons (6)
28 Allows freedom where documents are concerned (8)

DOWN

1 Depart agitatedly, it may explode! (6)
2 Anti-royalist has a bit of a fight getting capital (9)
3 A sprite, goblin or wood elf maybe (5, 10)
4 The notoriety only a hypochondriac would enjoy (3-4)
6 Standard Russian tools? (6, 3, 6)
7 Parties appeal to him (5)
8 Submissive, always coming up with regular payment (8)
9 Large revolver protects the entertainers (3, 3)
16 Pretty useless objects? (9)
17 Completely out of port and unable to explain why? (3, 2, 3)
19 Cathy's disorganised craft (6)
20 For punishment the writer gets the cane, perhaps (7)
21 Ladies make perfect models (6)
23 He may have the lot or about three quarters (5)

The *solution* to last Saturday's prize puzzle will be published with names of winners next Saturday.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

	Bid Price	Offer Price	+ or -	Yield Gross
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AUTHORISED UNIT TRUSTS & INSURANCES

Sentinel Funds Mngmnt Ltd
30 City Road, London EC1Y 2AY — 01-628 6626

American Mngrs	67.5	72.2	-0.3	1.12
Amer Tech & Genl Fd	100.5	107.5		0.55
European Growth	30.4	32.5	+0.2	0.03
European Income	36.3	38.8xd	+1.1	5.00
Exempt	535.4	572.9	..	2.03
Inst Growth Fd	29.4	31.5	-0.5	0.13
International Income	55.9	59.8xd	-0.6	4.96
Jap Tech & Genl	92.6	99.0xd	-0.5	0.01
Pacific Fund	158.2	169.3xd	-0.8	0.01
Secure Income Fd	170.4	182.3xd	-2.6	4.54
Small Co's Fd	37.0	39.6	-0.4	1.45
Special Sits	207.9	222.5xd	-3.6	2.18
UK General Fund	33.1	35.4xd	-0.4	2.32

Standard Life Trust Mgmt. Ltd
3 George St, Edinburgh EH2 2XZ — 0800 393777

Managed Trust Acc	23.3	25.0	..	3.0
UK Equity Gth Tst Acc	21.3	25.0		2.0
UK Equity High Inc Inc	23.3	25.0	..	5.00
UK Equity Gen Tst Acc	26.8	28.7	-0.6	3.19
UK Equity Gen Tst Inc	24.2	25.9	-0.6	3.19
Gilt & Fxd Int Tst Inc	23.3	25.0	-	8.0
Nth Amer Tst Acc	23.3	25.0	..	2.00
Far East Trust Acc	23.3	25.0	..	0.75
European Trust Acc	23.3	25.0	..	1.25

Stewart Ivory Unit Trust Mgrs Ltd (a)
45 Charlotte Sq, Edinburgh — 031-226 3271

American Fund	216.6	230.1	..	2.35
(Accum Units)	243.2	259.1		2.35
(Withdrawal Units)	152.0	161.9		2.35
Australian Fund	112.4	119.7	+1.2	1.11
(Accum Units)	115.8	123.3	+1.1	1.11
British Fund	578.8	616.5	-9.3	4.40
(Accum Units)	779.6	830.4	-12.5	4.40
European Fund	271.7	289.4	+1.1	0.90
(Accum Units)	286.1	304.7	+1.1	0.90
Japan Fund	278.0	296.1	-2.7	0.25
(Accum Units)	279.4	297.5	-2.7	0.25
Scot. PPP	165.1	173.8		—

Sun Alliance Fund Management Ltd
Sun Alliance House, Horsham — 0403 56293

Equity Tst	376.8	400.8		2.32
North America	56.6	60.2		1.20
Far East	69.2	73.6	-0.7	0.53

Sun Life Trust Mgmt. Ltd
107 Cheapside, London EC2V 6DU — 01-606 6010

American Growth Acc	32.0	34.1	+0.3	1.4
American Income Acc	30.6	32.5		5.5
American Income Inc	30.1	32.0		5.5
European Growth Acc	48.6	51.7	-0.3	0.8
European Income Acc	23.4	24.9	-0.3	4.5
European Income Inc	23.4	24.9	-0.2	4.5
Far East Growth Acc	39.1	41.6	-0.1	0.6
Int. Growth Acc	33.0	35.1	-0.3	2.0
Japan Growth Acc	48.3	51.9	-1.1	0.1
UK Growth Acc	35.8	38.1	-0.5	2.7
UK Income Acc	32.1	34.2	-0.4	5.3
UK Income Inc	31.3	33.3	-0.4	5.3
Managed Growth Acc	41.5	44.2xd	-0.1	2.0
Managed High Yield Inc	45.8	48.7xd	-0.4	7.0
Managed Income Inc	35.3	37.5xd	-0.7	3.5

Swiss Life Pen. Tst. Man. Co Ltd (a)(c)
99-101 London Rd, Sevenoaks — 0732 450161

Equity Dist.*	279.6	295.8		3.38
Equity Acc.*	336.4	355.9		3.38
Fixed Int. Dist.†	127.0	133.6		10.12
Fixed Int. Acc.†	189.1	195.9		10.12

*Prices on May 14. Next dealing June 11
†Prices on May 14. Next dealing June 4

TSB Unit Trusts (b) (c) (y)
PO Box 3, Keens House, Andover, Hants SP10 1PG
0264 62188 — Dealings to 0264 63432-3

TSB American	113.4	120.7	-0.1	0.98
Do. Accum	118.2	125.8	-0.2	0.98
TSB European	47.7	50.8	-0.2	0.51
Do. Accum	47.7	50.8	-0.2	0.51
TSB Extra Income	106.1	112.8	-1.9	5.11
Do. Accum	123.9	131.8	-2.3	5.11
TSB General	147.1	156.9	-2.7	2.79
Do. Accum	240.8	256.1	-4.3	2.79
TSB Gilt & Fxd Int	50.0	52.0xd	-0.5	8.28
Do. Accum	65.1	67.8	-0.5	8.28
TSB Income	212.4	226.0	-4.0	4.24
Do. Accum	326.0	346.9	-6.1	4.24
TSB Pacific	135.3	143.7	-0.6	0.58
Do. Accum	138.8	147.6	-0.6	0.58
TSB International	285.0	303.2xd	-1.6	1.45
Do. Accum	352.9	375.4	-1.9	1.45

Abbey Life—Continued
Pension Funds

Property	350.5	369.0		—
Equity	741.3	780.4	-18.1	—
Selective	245.3	258.1	-2.8	—
Managed	604.3	636.2	-6.8	—
Security	328.4	345.7		—
Fixed Int.	203.4	214.3	-2.4	—
European	175.3	184.6	+1.4	—
American	215.5	226.9	-1.5	—
Japan	220.2	231.8	-2.9	—

Aetna Life Insurance Co Ltd
401 St John St, London EC1V 4QE — 01-833 2303
Life Funds (Accumulator Units)

Squirrel	10.46	11.02		—
Bear	11.22	11.82	-0.04	—
Owl	11.52	12.13	-0.09	—
Bull	12.57	13.24	-0.08	—
Stag	12.34	12.99	-0.05	—
Gilt-Edged		11.20	-0.01	—
Deposit		9.62	-	—

Pension Funds (Accumulator Units)

Squirrel	11.05	11.64		—
Bear	12.05	12.69	-0.06	—
Owl	12.37	13.03	-0.11	—
Bull	13.94	14.68	-0.11	—
Stag	13.70	14.43	-0.07	—
Gilt-Edged		11.23	-0.01	—
Deposit		9.71	..	—

Exempt Approved

Mixed Managed	128.20	130.82	-1.06	—

Albany Life Assurance Co Ltd
3 Darkes Lane, Potters Bar — 0707 42311

Equity Fd. Acc.(z)	703.8	740.8	+0.2	—
European Fd Accum(z)	193.9	204.0	+1.8	—
Fixed Int. Acc.(z)	306.7	322.8	-0.2	—
Gtd Money Fd Acc(z)	196.5	206.8		—
Intl Man Fd Acc(z)	292.3	307.6	+1.4	—
Intl Fxd Int Fd Acc(z)	174.9	184.1	-0.5	—
Japan Fund(z)	222.3	234.0	+0.1	—
Nth American Fd Acc(z)	163.2	171.8	-0.6	—
Prop. Fd Acc(z)	198.8	209.2		—
Multiple Inv. Acc.(z)	495.9	521.9	+0.6	—

Pension Funds

Eq Pen Fd Acc(z)	1265.6	1332.2	+0.4	—
Euro Fd Acc(z)	248.6	261.6	+1.3	—
Fixed Int. Acc.(z)	576.2	606.5	-0.6	—
Gt Money Pn Acc(z)	317.4	334.1	+0.1	—

Noble Lowndes & Partners Ltd.
PO Box 144, Croydon — 01-686 2466

Lowndes (Dev Med)	97.5	102.7	-0.2
Lowndes (Scot. Equit.)	95.5	100.5	-1.0

The Norminster Group.
74 Broadway, Peterborough PE1 1SU — 0733 42200

Mngd. Scot. Mut.	95.7	100.8	+0.6	—

Norwich Union Insurance Group
PO Box 4, Norwich NR1 3NG — 0603 622200
Managed Funds

Managed Fund	640.6	674.3	-6.7	—
Equity Fund	1234.4	1299.3	-20.9	—
Property Fund	294.7	310.2	+0.1	—
Fixed Int. Fund	349.3	367.6	-2.8	—
Deposit Fund	192.6	202.7	+0.1	—
International Fund	117.0	123.1	-0.6	—

Norwich Union Life Insurance
Society Pensionmaster & Unit-Linked Plus

Fixed Interest*	238.5	251.0		—
Index Linked Secs*	133.1	140.1		—
Ord Share*	355.4	374.1		—
International Fund*	116.5	122.6		—

Prudential Assurance Co
Holborn Bars, London EC1N 2NH — 01-405 9222
Prufund

Managed May 14	176.6	184.0

Prudential Pensions Limited
Holborn Bars, London EC1N 2NH — 01-405 9222

Discretionary Fd May 14	302.96	315.90
Equity Fund May 14	106.40	109.70
Intl Fund May 14	18.71	79.29
Fixed Int May 14	57.17	57.93
Index Linked May 14	46.08	46.09
Property Fund May 14	61.27	63.12
Cash Fund May 14	15.3749	15.3749

Pru-Linked Retirement Plan

Managed Fd	148.6	250.2
Cash Fd	147.0	153.2

Prudential Pension Investment Account

Pens Managed Fd May 14	102.0	107.4
Pens UK Eqty Fd May 14	120.6	127.0
Pens Intl Fd May 14	96.9	102.1
Pens Fxd Int Fd May 14	98.3	103.5
Pns Index Lk Fd May 14	105.3	110.9
Pens Cash Fd May 14	96.3	101.4

هكذا من الأصل

INSURANCE, OVERSEAS & MONEY FUNDS

OFFSHORE AND OVERSEAS

Money Market Trust Funds

Money Market Bank Accounts

Western Trust & Savings Limited
The Moneycentre, Plymouth PL1 5SE 0752 24141
High Int Chq Acc ......10.38 7.78 11.24 Qr

NOTES—Gross: rate to those exempt from composite rate of tax. Net: actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate. Int Cr: frequency interest credited.

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. # Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ♦ Yield column shows annualised rates of NAV increase. xd ex dividend.

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		
Allied-Lyons	28	Marks & Spencer	18
BAT	38	Midland Bk.	44
BOC Grp	32	NEI	11
BSR	14	Nat West Bk	70
BTR	45	P & O Dfd	45
Babcock	28	Plessey	20
Barclays	45	Polly Peck	16
Beecham	32	Racal Elect.	17
Blue Circle	55	RHM	20
Boots	26	Rank Org Ord	48
Bowaters	30	Reed Intnl	75
Brit Aerospace	48	Sears	12
Brit. Telecom	17	TI	42
Brown (J)	3	Tesco	30
Burton Ord	32	Thorn EMI	35
Cadburys	17	Trust Houses	12
Charter Cons	22	Turner Newall	18
Comm Union	28	Unilever	120
Courtaulds	26	Vickers	40
Distillers	52	Wellcome	19
FNFC	15	**Property**	
Gen Accident	75	Brit Land	16
Gen Electric	17	Land Secs	30
Glaxo	100	MEPC	32
Grand Met	34	Peachey	24
GUS 'A'	75	Samuel Props	18
Guardian	75	**Oils**	
GKN	32	Brit. Oil & Min.	$2\frac{1}{2}$
Hanson Tst.	16	Brit Petroleum	48
Hawker Sidd.	52	Burmah Oil	38
ICI	50	Charterhall	3
"Imps"	28	Premier	$3\frac{1}{2}$
Jaguar	27	Shell	55
Ladbroke	32	Tricentrol	15
Legal & Gen	79	Ultramar	18
Lex Service	38	**Mines**	
Lloyds Bank	55	Cons Gold	40
Lucas Inds	60	Lonrho	25
		Rio T Zinc	50

A selection of Options traded is given on the London Stock Exchange Report Page.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Cont.

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Cont

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
July	Oct	Costain Group	518xd	12.5	17.0	q2.7	4.6	9.4
Sept.	Apr	Countryside Props	420	10.2	5.74	5.1	1.9	10.6
Oct.	April	Crouch (D.) 20p	132	10.3	5.95	2.3	6.3	9.6
Sept	Mar	Dew (George) 25p	94	24.2	6.0	1.2	9.0	13.3
October		Douglas (Robt. M.)	92	10.2	t1.75	2.6	2.7	16.0
October		♦Dunton Group 5p	20½	1.4	†0.24	4.3	1.7	15.7
May	Oct	♦EBC 50p	175	1.4	7.15	2.5	5.9	9.7
Dec.	June	Erith	93	14.4	3.3	♦	5.0	♦
February		Fairbriar 10p	154	3.12	R4.0	2.7	3.7	14.2
Dec	June	Feb. Intl. 10p	89	11.11	1.78	—	3.2	—
Dec	June	Do. 'A' 10p	54	11.11	1.78	—	4.7	—
Oct	Apr	Federated Housing 5p	115	17.4	3.3	3.0	4.0	11.6
Jan	Oct	Finlan Group 10p	56	10.2	g3.04	0.9	4.6	21.8
Apr.	Nov	Galliford 5p	92	10.3	4.4	1.5	6.7	14.3
	May	Gibbs Dandy A 10p	42	14.4	1.8	2.0	6.0	11.5
July	Jan.	Gleeson (M.J.) 10p	373xd	12.5	†5.37	5.4	2.0	12.9
Feb.	Oct	HAT Group 10p	103	13.1	†3.7	2.3	5.1	10.3
—	—	Helical Bar	187	6.81	—	—	—	79.0
Dec.	July	Henderson Group	223	11.11	7.0	♦	4.5	♦
Dec.	July	Hewden-Stuart 10p	73xd	12.5	1.7	♦	3.3	♦
Jan.	July	Do. 10pcLn. 03-08	£198	9.12	Q10%	—	f5.1	—
April	Oct	Heywood Williams	214	21.3	g6.75	2.0	4.4	13.8
Dec.	June	Higgs & Hill	590	28.2	13.6	♦	3.2	♦
Oct.	Mar.	Howard Shut 10p	34	10.2	d1.4	1.6	5.8	12.9
Dec.	May	Ibstock Johnsen	176	14.4	4.8	2.5	3.8	12.9
—		♦Imml Amco Cpn	50	—	—	—	—	—
Mar.	Oct.	Jarvis (J.)	330	16.9	t17.5	—	—	—
	April	♦Jaysplant	40	11.3	0.25	3.9	0.9	30.9
Mar	Oct	♦Jennings A$.50	105	3.3	Q20%	2.1	4.6	10.4
Apr	Oct	♦Johnstones Pt. 10p	75	10.3	4.27	2.1	9.0	8.5

DRAPERY & STORES—Cont.

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
July	Nov	Superdrug Strs. 10p	500	30.9	5.0	♦	1.4	♦
May	Nov	♦T & S Stores 5p	198	14.4	3.0	♦	2.1	♦
	July	Tern Group	60	5.6	R2.0	0.2	4.7	—
Feb.	Aug.	Time Prods. 10p	76	9.12	†1.5	2.7	2.8	15.8
—		Top Value Inds 10p	75	17.83	—	—	—	♦
	—	Underwoods 10p	181	—	R1.65	3.0	1.3	36.8
	—	Upton (E.) 'A'	36	11.80	—	—	—	♦
June	Nov	WW Group	340	14.4	7.96	♦	3.3	♦
July	Dec	Ward White	298	9.4	6.5	♦	3.1	♦
September		Warehouse	£14½	12.8	♦3.75	—	0.4	—
July		Wassall (J.W.)	56	17.6	1.0	5.8	2.4	7.4
—		♦Wickes 40p	154	—	L2.0	4.2	1.8	17.2
	—	Walls	110	7.81	a2.5	0.6	3.3	47.4
July	Nov	Woolworth Hldgs 50p	805xd	12.5	♦10.0	q3.1	1.7	21.4
Apr	Oct	Do. 8½pc Ln 2000	£274	10.3	8½%	—	f4.9	—
—		♦World of Leather 10p	185	—	L2.5	3.7	1.9	19.9

ELECTRICALS

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Dec	June	AB Electronic	333	1.4	8.0	3.3	3.4	11.6
May	Jan	A. & G. Sec Elecs 5p	50	1.4	♦1.2	3.8	3.4	11.0
—		AMS Inds 5p	71	10.3	L1.23	5.1	2.4	11.2
—		♦Acorn Cmptr 10p	57	11.84	—	—	—	—
June	Nov	♦Air Call	245	28.10	5.6	1.8	3.2	24.1
Sept	Mar	♦Alphameric 5p	135	27.1	†0.7	7.5	0.7	25.8
	—	♦Amer Elect Comp 5p	18½	—	b0.87	2.8	6.8	7.3
April	Nov	Amstrad 5p	547	24.2	†0.99	20.9	0.2	22.5
	—	♦Appl'd Holographics 5p	267	—	—	—	—	—
—		♦Do Warrants	227	—	—	—	—	—
Aug	Dec	♦Arcon Comp 10p	83	9.12	1.5	7.0	2.5	7.9

CHEMICALS, PLASTICS

DRAPERY AND STORES

ENGINEERING

ENGINEERING—Continued

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

INDUSTRIALS—Continued

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
July	Jan	Midland Marts	135	25.11	4.0	2.1	4.2	16.1
Jan	May	Mitchell Cotts	74	10.3	4.25	1.5	8.1	10.4
—		Monks & Crane 10p	103	—	R2.7	2.7	3.7	14.2
Jan.	July	Morgan Crucible	300	28.4	8.5	♦	4.0	♦
May		Morris (M.) F.A. 20p	22½	—	—	—	—	—
Jan.	Aug	Moss (Robt.) 10p	131	25.11	♦13.0	2.7	3.2	14.1
July		Myson Grp 10p	118xr	12.5	2.63	2.6	3.0	14.2
Nov	June	NMW Computers	335	24.2	6.0	3.0	0.9	19.3
Mar.	Sept.	Nash Inds.	30	13.1	0.5	—	2.3	—
—		Neill & Spencer 10p	22	3.81	—	—	—	—
Jan	July	Newman Inds 10p	38	14.4	0.8	♦	3.0	♦
April	Dec	Nolton	51	11.11	0.95	5.9	2.6	7.3
—		Norank Systems 5p	118	—	u3.0	♦	3.6	♦
Jan.	Aug.	Norcros	238	23.12	18.6	2.0	5.1	13.0
Oct.	April	Nu-Swift 5p	98xc	12.5	3.5	2.1	5.5	12.1
Feb.	Aug.	Oakwood Grp.	110	27.1	5.0	1.3	6.4	15.3
Dec	July	Office & Elect	240	28.10	8.5	2.9	5.1	9.6
October		Ondacre 20p	92	10.2	14.0	2.6	6.1	8.2
—		Optometrics $0.01	24	—	a002c	2.1	6.5	8.0
May	Nov	Ortiane £1	725	28.4	24.5	2.1	4.8	14.1
Jan.	June	Overstone 12½c	9xd	12.5	φ0.3.23d	1.9	11.6	4.5
May	Nov.	Ozalid 9pc Cnv 87-92	£262	14.4	Q9%	—	13.5	—
December		PCT Grp 10p	85	25.11	3.2	1.2	7.2	27.9
April		PLM 'B' Sk 25	£36¼	3.4	023.2%	0.3	3.9	—
June	Dec	PSM Intl	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LEISURE—Continued

Dividends Paid		Stock	Price	Last xd	Div Net
Jan	July	Leisuretime Int 10p	110	1.4	2.3
—		Lewmar	112	—	u2.63
14.2		Media Tech Int 20p	165	24.2	L7.58
Apr	Dec.	Medminster 10p	140	10.3	†5.35
Oct	May	Mess World 10p	175	1.4	5.2
May	Oct	Nationwide Leisure	82xd	12.5	13.75
—		Owlumsto Int 20c	16	—	—
July	—	Owners Abroad 3p	30½	28.4	1.5
—		Photax (Lon.)	60	4.82	—
Apr	Sept	P'dilly Radio NV 5p	29½	24.2	2.0
—		Pineapple Dnc St 10p	67	12.84	—
Sept	Apr	Pleasurama 5p	380xd	12.5	7.5
Sept.	Mar	Do. 7pcCvCmRedPf	141	10.2	7%
		For Pres Entertainment see Hotels			
—		Radio City 'A' NV	42	12.84	—
Jan	July	Radio Clyde NV	40	23.12	3.25
—		Really Useful Grp 5p	364	1.4	b11.25
—		Riley Leisure 10p	47	10.84	—
Apr	Nov.	Saga Hols. 20p	173	10.3	4.6
Apr	Nov	Samuelson Grp 20p	295	24.2	12.4
Jan	July	Sangers Photo 10p	112	28.10	♦2.0
July	Dec	Scantro 50p	165	11.11	4.0
Dec	May	Scott. TV 'A' 10p	335	14.4	10.5
		SeaCo Inc $0.125	156	7.84	—

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

INVESTMENT TRUSTS—Cont.

FINANCE, LAND—Cont.

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

INSURANCES

PROPERTY

LEISURE

Finance, Land, etc

MINES

Central Rand

Eastern Rand

Far West Rand

MINES—Continued

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
—		Anglo Utd Dev	32	—	d1.05	♦	4.7
—		Colby Res Corp.	56	—	—	—	—
Aug.	Feb.	Cons. Murch. 10c	200	13.1	(a)Q86c	3.9	‡
—		Ennex Int. Ir10p	33	—	—	—	—
—		Greenwich Res	98	—	—	—	—
Apr	Oct	Hampton Areas 10p	138	23.12	♦3.75	0.9	3.6
—		Highwood Res.	222	—	—	—	—
Fb Jun Ag Nv		Homestake Mining $1	£13¾	30.1	Q20c	—	1.0
—		McFinley Red Lake	200	—	—	—	—
—		Nesto Explorations	200	—	—	—	—
—		New Sabina Res C$1	35	—	—	—	—
—		Northgate C$1	215	9.77	—	—	—
Jan.	July	RTZ	650xd	12.5	22.0	2.8	4.8
Jan	July	Do. 9⅛pcLn '95-2000	£134½xd	12.5	Q9½%	15.5	17.2
—		Tara Expln $1	884	—	—	—	—

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 29 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- φ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ♣ USM, not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- $ Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ₮ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ‖ No par value.

B Fr. Belgian Francs. Fr. French Francs. ♦♦ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate; cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1984-85. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Figures based on prospectus or official estimates for 1984. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or −
Albany Inv 20p	123xd	
Craig & Rose £1	£13	
Finlay Pkg 5p	44xd	
Holt (Jos) 25p	790	
IoM Stm £1	93	+3
IRISH		
Fund 11¼% 1998	£103¼	
Nat 9¾% 84-89	£101½	
Fin 13% 97/02	£124½	−1
Arnotts	343xd	
CPI Hldgs	58	
Carroll Inds.	198	
Dublin Gas	53	
Hall (R. & H.)	73	−2
Heiton Hldgs.	36	
Irish Ropes	100	
Unidare	195	

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APPOINTMENTS

Bank of England board change

Sir Martin Jacomb has been appointed a director of the BANK OF ENGLAND in place of Mr Alan Lord, who resigned in February. Sir Martin is chairman designate of Barclays de Zoete Wedd, the investment banking subsidiary of Barclays Bank, deputy chairman of Barclays Bank and deputy chairman of the Securities and Investments Board.

★

Mr Tony Moore has been appointed managing director of HOLLIS TIMBER SALES, a subsidiary of Hollis PLC, controlled by Pergamon Press. He was previously regional manager for Powell Duffryn Timber.

★

Mr Martin J. Morgan has been appointed property director of AUTOMAGIC HOLDINGS (formerly Heelamat Holdings). He was appointed to the board of Automagic Ltd in early 1985 and subsequently to the board of the holding company.

★

Mr Richard Finn, treaty excess loss underwriter of R. A. Edwards Non-Marine Syndicate No 219, and **Mr Brian Branch**, deputy underwriter of C. D. Raynor Marine Syndicate No 304, have been elected directors of EDWARDS AND PAYNE (UNDERWRITING AGENCIES).

★

Mr Guy Edmiston has become chairman of AEGIS INSURANCE SERVICES. **Mr Simon Ward** is chief executive and **Mr Gerard Dent** and **Mr Colin Hardy**, directors.

★

Two new diectors have been appointed at NEW BRIDGE STREET. **Mr Chris Whitehouse** joins from the employee benefits firm, MWP, where he was chief executive. **Mr Graham Cooper** joins from Bain Dawes Financial Services where he was a director.

★

A. GRANTHAM has appointed **Mr A. L. Wilkinson** as chief executive. In addition, the board has been strengthened by the appointment of **Mr R. A. Naish** (chief executive, Grantham Uniform Centres) and **Mr N. F. C. Smith** (non-executive chairman of the board). Mr Wilkinson and Mr Naish have already served the company for a number of years in executive and managerial capacities. Mr Smith was formerly a director of Vantona. **Mr M. R. Hutchinson** has retired as chairman and managing director and has been retained as a consultant.

★

Sir Kenneth Durham has been elected president of the ASSOCIATION OF BRITISH CHAMBERS OF COMMERCE. He is chairman of Unilever plc, a vice chairman of Unilever NV, a director of British Aerospace, a non-executive director of Delta Group and Morgan Grenfell Holdings and non-executive chairman of Woolworth Holdings.

★

MERRILL LYNCH RELOCATION MANAGEMENT INTERNATIONAL (MLRMI) has appointed **Mr Nicholas Trollo** as managing director. He has worked for Merrill Lynch Relocation Management Inc (MLRM) in the US for nearly six years and has been on the board of MLRMI since 1983. **Mr A. G. Hickie**, currently director of operations, has been appointed director of sales and marketing. He has worked for MLRM and MLRMI for 13 years. MLRMI is the London-based subsidiary of MLRM, which is part of Merrill Luch and Co Inc.

★

At LAWSON MARDON (formerly Mardon Packaging International) **Mr Lionel Hobbs**, deputy chairman of the Carton and Print division, has retired, and **Mr Douglas Muir** has resumed direct responsibility for the group's French and West German companies. At Mardon Flexible Packaging **Mr Ian Gunn** is appointed managing director and **Mr Bill Roxburgh** becomes financial director. From July 4 **Mr John Durston**, currently managing director, will become chairman, flexible packaging division and a director of Lawson Mardon. At Mardon Illingworth, **Mr Robert Williams** is made deputy managing dircetor. He was formerly with Reed Plastic Containers. **Mr Richard Blake** is appointed commercial director.

★

TRIUMPH ADLER has appointed **Mr C. W. A. Davis** as financial director on the board of Triumph Adler (UK). He was financial controller and is also company secretary.

President of Royal Aero. Socy.

Dr John Fozard, director of special projects in the British Aerospace military aircraft division, has been installed as president of the ROYAL AERONAUTICAL SOCIETY for the year 1986-1987. Best known for his long association with the V/STOL Harrier (notably as chief designer from 1963 to 1978), he has also long been widely active with the RAS, having originally joined as a student in 1949, serving for the past nine years as a member of the Society's Council and several of its executive committees, and as a vice president since 1979.

New Euro car group chairman

Mr John Egan, chairman and chief executive of Jaguar Cars, has been elected as chairman of the board of the COMMITTEE OF COMMON MARKET AUTOMOBILE CONSTRUCTORS (CCMC). He succeeds Dr Carl H. Hahn, chairman of Volkswagen.

★

Mr Martin Tarran-Jones has been appointed managing director of VALSPAR PAINTS. He was sales and marketing director.

FINANCIAL DIARY FOR THE WEEK

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

COMPANY MEETINGS—
TODAY
Anchor Chemical, Piccadilly Hotel, Manchester. 11.30
Caparo Inds, 8, Baker Street, W. 12.00
Fortnum & Mason, Bowater House, 68, Knightsbridge, SW. 10.30
Reabrook Hldgs, Stanhope Road, Swadlincote, Burton-on-Trent. 12.00
TR Pacific Basin Inv Tst, Mermaid House, 2, Puddle Dock, EC. 12.30
BOARD MEETINGS—
Finals:
Assoc British Foods
Clayform Props.
Godwin Warren Control Systems
Ivory & Sime
Readicut Intl.
Tomkinsons
Interims:
Australia & New Zealand Banking
Brooke Tool Engineering
Brown (Matthew)
Craton Lodge & Knight
Crystalate
Dubilier
Pericom
United Scientific
Williams (John)
DIVIDEND & INTEREST PAYMENTS—
ASD 4p
Combined Intnl Corp 56cts
Commerzbank Overseas Finance Fltg Rate Nts 1995 $505.56
Consultants (Comp & Fin) 0.55p
Corah 2.4p
Exchequer 10½pc 1986 5¼pc
Fleming Japanese Inv Tst 0.5p
Linread 1.5p
Manson Finance Tst 0.75p
Metal Closures Grp 4.5p
Ruberoid 6.4p
Shorrock 1.32p
Silkolene 3p
Treasury 3pc 1986 1½pc
Treasury 10½pc 1999 5¼pc
Woolwich Equitable Bldg Soc Fltg Rate Ln Nts 1995 £483.51
TOMORROW
COMPANY MEETINGS—
Allied Plant, Great Eastern Hotel, Liverpool St. EC. 12.00
Aspen Communications, Hambros Bank, 41, Bishopsgate, EC. 12.15
Assoc Book Publishers, 11, New Fetter Lane, EC. 12.00
Assoc British Ports, Ironmongers Hall, Shaftesbury Place, Barbican, EC. 12.00
Astbury & Madeley, Finch Road, Lozells, Birmingham. 12.00
Bestwood, Institute of Chartered Accountants, Moorgate Place, EC. 12.00
British Dredging, Royal Hotel, St Mary St, Cardiff. 12.15
Christies Intnl, 8, King Street, St James's, SW. 12.00
Fisons, Goldsmiths Hall, Foster Lane, EC. 11.00
Horizon Travel, Strathallen Hotel, Hagley Road, Birmingham. 2.30
IMI, Midland Hotel, New St, Birmingham. 12.00
Jamesons Chocolates, Willoughby Lane, Tottenham, N. 11.00
Lambert Howarth, Oaks Hotel, Colne Road, Burnley. 12.00
Macfarlane Group, Merchants House, 7, West George St, Glasgow. 12.00
Scott & Robertson, 96, Port Glasgow Road, Greenock. 12.00
Trade Indemnity, 12-34, Great Eastern St, EC. 12.00
United Newspapers, Stationers Hall, Ave Maria Lane, EC. 10.30
BOARD MEETINGS—
Finals:
British & American Film
Business Mortgages Tst.
Cakebread Robey
Country & New Town Props.
Fine Art Devs.
Gartmore American Securities
Mersey Docks & Harbour
Miles 33
Sainsbury (J.)
Spectra Automotive & Eng'g. Prods.
Interims:
Appledore (A. & P.)
Bibby (J.)
Cramphorn
Guinness Peat
Majedie Invs.
Ranks Hovis McDougall
DIVIDEND & INTEREST PAYMENTS—
Allied Irish Banks Undated Fltg Rate Nts $430.5
Astbury & Madeley 5.06p
Caterpillar Tractor 12.5cts
European Assets Tst Reg Fl0.06
Do Br Fl0.06
Exchequer 12pc 1998 6pc
Halifax Bldg Society Fltg Rate Ln Nts 1996 $217.81
Hestock Johnsen 3.3p
Kleinwort Benson Finance Gtd Fltg Rate Nts 1991 $101.98
Manufacturers Hanover Tst Fltg Rate Sub Cap Nts 1994 £154.68
Merchants Tst 2p
Morgan (J.P.) Intnl Fin Gtd Fltg Rate Nts 1997 $202.41
Security Pacific Corp 37cts
Standard Chartered Finance Gtd Fltg Rate Nts 1991 £424.22
Trade Indemnity 4.05p
Treasury 2½pc IL 2003 £1.5147
Treasury 2½pc IL 2009 £1.5147
WEDNESDAY MAY 21
COMPANY MEETINGS—
AMEC, Piccadilly Hotel, Manchester. 12.00
Arcolite Hldgs, Devonshire Hall, Devonshire Ave, Street Lane, Leeds. 12.00
Atlantic Computers, The Brewery, Chiswell St. EC. 11.00
Blackwood Hodge, Waldorf Hotel, Aldwych, WC. 10.30
Britton, Connaught Rooms, Great Queen St. WC. 12.00
Collins (William), Westerhill Rd, Bishopsbriggs, Glasgow. 12.15
Consultants (Comp & Fin), Eldon House, 2-3, Eldon Street, EC. 12.00
English & Scottish Invs, 2, St Mary Axe, EC. 12.00
Equity & Law Life Assurance, 20, Lincolns Inn Fields, WC. 12.15
Fogarty, Havenside, Fishtoft Road, Boston. 2.15
Johnson Group Cleaners, Mildmay Road, Bootle, Merseyside. 11.45
Metalrax, Plough & Harrow Hotel, Hagley Road, Birmingham. 11.45
Moss Bros, 21-26 Bedford St, Covent Garden, WC. 12.00
Northern Engineering, Gosforth Park Hotel, Newcastle upon Tyne. 12.00
Phicom, CBI, Centre Point, 103, New Oxford St. WC. 11.30
RTZ, Grosvenor House, Park Lane, W. 2.30
Slough Estates, Savoy Hotel, Market Square, Kettering. 12.00
Sun Alliance, 1, Bartholomew Lane, EC. 12.30
Thurgar Bardex, Royal Hotel, Market Square, Kettering. 12.00
Wood (Arthur), Bradwell Works, Longport, Stoke-on-Trent. 12.00
BOARD MEETINGS—
Finals:
Allied Irish Banks
Hartwells
London & Northern
Morris & Crane
Whitbread & Co.
Interims:
Assoc. Paper Inds.
Avon Rubber
Bass
Cronite
Irish Distillers
National Australia Bank
Scottish American Inv.
DIVIDEND & INTEREST PAYMENTS—
Aspen Communications 1.8p
Assoc Book Publishers 3.5p
Bank of Tokyo (Curacao) Gtd Fltg Rate Nts 1990 £155.45
Bestwood 6p
Commerzbank Overseas Finance Fltg Rate Nts 1989 $197.78
Exchequer 2½pc 1986 1¼pc
Export-Import Bank of Korea Fltg Rate Nts 1994 $417.93
First Chicago Overseas Finance Gtd Fltg Rate Nts 1994 $202.41
Horizon Travel 3.52p
Lambert Howarth Grp 4.25p
Lloyds Bank Prim Cap Und Fltg Rate Nts $210.83
Macfarlane Group 1.47p
New Brunswick Fltg Rate Nts May 1994 C$30.59
Pressac Hldgs 0.7p
Security Pacific Corp Fltg Rate Sub Cap Nts 1997 $183.58
Treasury 12½pc 2003/05 6¼pc
Western Dooars Tea Hldgs 6p
Wood (Arthur) & Son 2.5p
THURSDAY MAY 22
COMPANY MEETINGS—
Bowater Inds, Butchers Hall, 87, Bartholomew Close, EC. 11.00
Brown Boveri Kent, Browns Hotel, Dover Street, W. 12.00
Central TV, Holiday Inn, Holliday St, Birmingham. 2.45
Clayton, Son & Co, Queens Hotel, Leeds. 2.00
Ealing Electro-Optics, Greycaine Road, Watford. 2.30
Enterprise Oil, Glaziers Hall, 9, Montague Close, London Bridge, SE. 12.00
F. & C. Pacific Inv Tst, 1, Laurence Pountney Hill, EC. 12.00
Henara, Connaught Rooms, Great Queen St. WC. 10.00
Jerome (S.), Post House, Bramhope. 12.30
Lawrence (Walter), City Livery Club, Sion College, Victoria Embankment, EC. 12.00
Morrison (Wm) Supermarkets, Victoria Hotel, Bridge St, Bradford. 11.00
Plan Invest, Stock Exchange, 76, King St, Manchester. 12.00
Portals Hldgs, Howard Hotel, Temple Place, Strand, WC. 12.00
Sharpe & Fisher, Pittville Pump Room, Evesham Rd, Cheltenham. 12.00
Sater, Howard Hotel, Temple Place, Strand, WC. 12.00
Weir Group, Merchants Hall, 30, George Square, Glasgow. 12.00
BOARD MEETINGS—
Finals:
British-Borneo Petroleum Syndicate
Castings
Deritend Stamping
Ferguson Indl.
Hambros Inv. Tst.
Micro Focus
Plessey
Young & Co's Brewery
Witan Inv. Tst.
Interims:
Albion
Greenall Whitley
RHP
DIVIDEND & INTEREST PAYMENTS—
Aberdeen Steak Houses 1.2p
Arncliffe Hldgs 0.1p
Bridon 3.5p
Clayton 5.5p
Collins (William) 5.375p
Do A (N/Vtg) 5.375p
Conversion 10½pc 1999 5¼pc
Druck Hldgs 1.8p
European Inv Bank 10¾pcLn 2004 5¼pc
Exchequer 2½pc 1990 £0.822
Fogarty 2.65p
Intercom Belge BFr244
Lyon & Lyon 4p
Malakoff Berhad 7.5sen
McLaughlin & Harvey 5p
Sea Containers 10.5cts
Shell Transport (Reg) 22.5p
Do (Br) 22.5p
Sime Darby Berhad [illegible]
Stafford Potteries [illegible]
Stag Furniture [illegible]
Systems Designers [illegible]
Television South West [illegible]
Trans-Oceanic Tst [illegible]
Treasury [illegible]
Treasury [illegible]
FRIDAY MAY 23
COMPANY MEETINGS—
APV Hldgs, Institute of Directors, 116, Pall Mall, SW. 12.15
ATA Selection, Connaught Rooms, Great Queen St. WC. 12.00
Babcock Intnl, Over-Seas House, Park Place, [illegible]
Beaufort [illegible]
Benford [illegible]
Bramall [illegible] Hall [illegible]
Breedon [illegible]
British [illegible] 12.00
CCA Galleries, Arts Club, Dover St. W. 11.00
Conrad [illegible] 12.00
Johnson & Jorgensen, Hyde Park Hotel, Knightsbridge, SW. 12.00
New [illegible] Lane. [illegible]
Octopus Publishing, 59, Grosvenor St. W. 12.00
Pantherella, Grand Hotel, Leicester. 12.15
Relyon, Wellington, Somerset. 12.00
Stewart Wrightson, Baltic Exchange, 14-20, St Mary Axe. EC. 12.00
Tove & Co, Connaught Rooms, Great Queen St. WC. 12.00
Triplevest, 11, Devonshire Square, EC. 3.15
Warrington (Thomas), Post House Hotel, Wrexham Road, Chester. 11.00
Wilson (Connolly), Northampton Moat House, Northampton. 12.00
BOARD MEETINGS—
Finals:
Carless Capel & Leonard
Milletts Leisure Shops
New England Props.
Samuel (H.)
Stewart Enterprise Inv.
Toshiba
Interims:
Kelsey Inds.
Spectrum
Talbex
DIVIDEND & INTEREST PAYMENTS—
[illegible]
SATURDAY MAY 24
DIVIDEND & INTEREST PAYMENTS—
[illegible]
SUNDAY MAY 25
DIVIDEND & INTEREST PAYMENTS—
Aluminum Company of America 30cts

King & Shaxson Holdings PLC

EXTRACTS FROM THE STATEMENT OF THE CHAIRMAN, Mr. W.E.C. D'ABBANS

to be presented at the Annual General Meeting of the Company on 12th June 1986

It has has been an eventful year. In my last statement I referred to the proposed changes in The Stock Exchange and in particular to the gilt-edged market. Your Board had decided that primary dealership was an inappropriate venture for your Company but were actively seeking other avenues of profit less vulnerable to the whims of the interest rate cycle. To this end, your Company applied to the Bank of England for permission to form a Stock Exchange Money Broking subsidiary and this was granted in August. We are fortunate in having obtained the services of Mr. J.A. Beard to set up and manage the new venture and he was appointed to the Board on 18th Novemeber, 1985.

On 15th April, your Company made an offer for the whole of the issued Ordinary Share Capital of Smith St. Aubyn (Holdings) PLC, a move intended to strengthen our capital base and achieve economies of scale in an increasingly competitive market. At the time of writing, the offer has been accepted by holders of 38.5% of that company's Ordinary Shares and remains open until 21st May, 1986.

Your Directors report a profit for the year ended 30th April, 1986 of £1,100,000 after providing for rebate, taxation, and a transfer to inner reserves. This represents an increase of nearly 40% over the profit of £788,000 reported for the year ended 30th April, 1985. A final dividend of 6.25 pence per Ordinary Share is proposed making a total for the year of 8.75 pence, an increase of 0.5 pence per Ordinary Share.

Relatively narrow fluctuations in Clearing Bank Base Rates have at times disguised greater movements in term rates, notably in January when a sharp rise was threatened. Ironically this proved to be a most profitable period. A net fall of 2% in Clearing Bank Base Rates might in the past have been expected to yield a higher level of profit than has been achieved in the past twelve months. However, when the markets' exuberance clashes with the Authorities' caution, the resulting inverted rate structure makes for very difficult trading conditions in our traditional areas. It remains a source of great concern that a part of our business as important as that of investment in and dealing in eligble bank bills should yield so little profit.

To turn to the current year, expectations of further cuts in interest rates must be viewed with a degree of scepticism. Bank lending, largely for the purpose of financing consumer expenditure, continues to grow at an alarming rate. Sterling M3 is outside its target range and, although a much devalued indicator in some quarters, it is closely watched by bond and other markets. Low price inflation has not so far been reflected in low pay settlements and there has recently been a marked deterioration in the U.K. trade figures. Sterling, though currently at a satisfactory level will remain vulnerable to any adverse change in sentiment and it seems unlikely that the Authorities will sanction a rapid fall in interest rates, however desirable that might appear to be politically.

Copies of the 1986 Annual Report and Accounts may be obtained from the Secretary, King & Shaxson Holdings PLC, 52 Cornhill, London EC3V 3PD.

WORLD STOCK MARKETS

FRANCE

[illegible]

GERMANY

[illegible]

SWEDEN

[illegible]

SINGAPORE

[illegible]

ITALY

[illegible]

NETHERLANDS

[illegible]

HONG KONG

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

SWITZERLAND

[illegible]

DENMARK

[illegible]

JAPAN

[illegible]

AUSTRALIA

[illegible]

AUSTRIA

[illegible]

SPAIN

[illegible]

NORWAY

[illegible]

SOUTH AFRICA

[illegible]

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Danish Kroner.

CANADA

TORONTO

Closing prices May 16

[illegible]

MONTREAL

Closing prices May 16

[illegible]

OVER-THE-COUNTER

Nasdaq national market, closing prices, May 16

Continued from Page 37

[illegible]

INDICES

NEW YORK

[illegible]

CANADA

[illegible]

NEW YORK ACTIVE STOCKS

[illegible]

** Saturday May 10: Japan Nikkei (c). TSE (c).

Base values of all indices are 100 except Brussels SE—1,000, JSE Gold—255.7, JSE Industrial—264.3, and Australia, All Ordinary and Metals—500, NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

Closing prices, May 16

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
24	11½	AAR s	.44	2.0	20	219	22	21½	21¾	-⅛
30	21¾	ADT	.92	3.2		63	28½	28	28½	+⅜
28½	11½	AFG s			16	871	25¾	23¾	25	-¾
25⅝	12¾	AGS			15	467	20½	19½	19¾	-¾
15	9⅝	AMCA				2	13½	13½	13½	-⅛
60⅝	37½	AMR			11	5616	54⅝	53⅝	54⅝	+¼
27½	23¼	ANR pf	2.67	11.		z2	25¼	25¼	25¼	
12½	7⅝	APL			7	20	11⅜	11⅜	11⅜	
16¾	11	ARX	.711	5.1	13	77	14⅛	13⅞	13⅞	-⅜
53⅝	33¾	ASA	2a	5.6		529	35⅞	35½	35⅝	-⅜
19⅝	10½	AVX		2.3		325	14⅜	13⅞	13⅞	-⅜
32	22⅝	AZP	2.72	9.8	7	1115	28	27½	27⅝	-⅜
91⅞	52	AbtLab	1.68	2.0	21	1138	84⅝	83⅝	84⅝	+⅝
44⅝	42½	AbtLb wi				21	42⅝	d42¼	42⅝	+⅛
31⅞	19⅝	AccoWd	.50	1.7	21	424	29¾	29	29¾	+¾
24¾	10	AcmeC	.40	3.1		39	13⅛	12⅞	13	+⅛
9¼	7	AcmeE	.32b	3.9	20	13	8⅝	8⅛	8⅛	
20⅞	16⅝	AdaEx	1.90e	9.6		107	20	19¾	19⅞	
29	15	AdmMl	.40	1.5	12	10	25⅞	25⅞	25⅞	+¼
20⅝	10½	AdvSys	.63t	4.9	16	191	17	16¾	17	
32⅞	22⅛	AMD				1803	25⅝	25⅝	26⅛	+⅛
12⅝	8¼	Adobe n				77	9⅝	9⅛	9¼	-⅛
18⅝	14⅝	Adob pf	1.84	11.		46	17	16¾	17	
20¼	15¼	Adob pf	2.40	12.		47	19¾	19⅝	19¾	-⅛
13⅝	8⅛	Advest	.12a	.6	13	150	18¾	18½	18½	-¼
66¼	42¼	AetnLf	2.64	4.6	10	2303	57¼	57	57⅝	-¼
57½	52⅞	AetL pf	4.97e	9.3		10	53¼	53½	53¼	-⅛
69¼	29	Ahmns	1.38	2.4	7	1969	55½	57¾	56½	-⅛
4⅞	2½	Alleen			93	156	4⅛	4½	4⅝	-⅛

Continued on Page 37

NYSE COMPOSITE CLOSING PRICES

Continued from Page 36

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
9½	5⅞	Prmlan 1.19e		16.	7	275	7½	7⅛	7⅜	
18¾	12½	PeryD s .22		1.2	19	139	16½	16	16⅜	+ ¼
32¾	17⅞	Petrie s .70		2.3	17	524	30¼	29¾	30⅛	+ ⅛
28½	22¾	PetRs 3.51e		13.		23	27½	27¼	27¼	+ ⅛
17½	15¾	PetRs pf1.57		9.0		15	17⅜	17¼	17⅜	
4½	2	PtrInv .68e		25.		20	2¾	2¾	2¾	
64⅞	43¾	Pfizer 1.64		2.8	16	4652	58⅞	57⅜	57¾	− 1
32½	16¾	PhelpD			41	501	25½	24¾	24⅞	− ⅝
63	45	Phelp pr 5		9.1		20	54¾	54¼	54¾	
20¼	13⅞	PhilaEl 2.20		12.	7	1632	17⅝	17⅜	17⅝	+ ⅛
37¾	28	PhilE pf3.80		11.		z100	36	36	36	
42½	28	PhilE pf4.30		10.		z280	41	40	41	+ ¾
42	32	PhilE pf4.40		11.		z20	40	40	40	
46¼	33	PhilE pf4.68		11.		z3800	43⅛	42⅞	42⅞	+ ⅞
84	62	PhilE pf8.75		11.		z310	79	77½	78	− 1
13⅜	8¾	PhilE pf1.41		12.		17	12⅛	12	12⅛	+ ⅛
12⅝	9½	PhilE pf1.33		12.		138	11⅝	11⅛	11½	+ ¼
76	32	PhilE pf7.85		11.		z250	71	70⅝	70⅝	− ⅝
12⅝	9⅛	PhilE pf1.28		11.		109	11¼	10⅞	11¼	
130	117⅞	PhlE pf17.13		13.		z680	127	128	127	
117½	105⅛	PhlE pf15.25		13.		z680	114	113	114	
98	71	PhilE pf9.52		10.		z10	93	93	93	− 1
90½	65½	PhilE pf9.50		11.		z50	85⅛	85⅛	85⅛	− ⅞
78	55¼	PhilE pf7.80		11.		z380	71½	70¾	71½	+ 1¼
74	55	PhlE pf7.75		11.		z20	70¼	70¼	70¼	− 1¼
23¼	18¼	PhilSubl .32		6.3	12	6	20⅞	20¾	20⅞	+ ⅛
68⅜	36	PhilMr s			11	5367	63⅝	62¼	62⅝	− ¾
38	19¾	Philpin .80		1.8	16	42	34¼	33⅞	34	− ½
13⅞	9¼	PhilPt s .60		6.8	6	4978	10⅛	9⅞	10⅛	
25½	19¼	PhlPt pf2.15e		10.		75	21½	20⅞	20⅞	− ¼
36⅜	22	PhilVH .40		1.1	14	111	35	34⅝	34⅞	− ⅛
44¾	28⅞	PiedA s .32		.8	12	376	40⅜	39¾	40	− ⅜
20¼	15⅛	PieNG s			10	33	17¾	17⅜	17¾	+ ⅝
23⅜	12¾	Pier 1 .02r		.1	13	47	20½	20½	20½	
11½	9	PilgRg n.07e		.7		398	10⅜	10⅛	10⅜	+ ⅛
80¾	46⅞	Pilsbry 1.72		2.3	17	2036	76½	75¼	75⅝	− 1⅛
28⅝	18⅜	Pioneed .24		5.5		x841	22⅝	22½	22⅝	+ ⅛
29¾	13½	PionrEl .10e		.4		15	28¼	28	28¼	+ 1
62	37	PitnyB 1.32		2.3	15	1981	57⅞	57⅜	57¾	+ ¼
…	…	Rorer 1.12		2.9	8	327	38¾	38½	38½	− ¼
		Rothchn			12	695	23⅞	23⅛	23⅜	− ½
		Rowan .08		1.4	84	391	6	5¾	5⅞	
		RoylD 3.29e		4.3	7	2140	77⅜	76⅞	77⅛	− ⅛
		Roylnt			12	85	10⅜	10⅛	10⅜	
		Rubmds .48		1.0	28	354	46¼	46	46¼	
		RussBr			16	91	26¾	26	26	− ½
		RusTog .76		2.8	13	61	27½	27⅜	27⅜	− ⅝
		Russell .32		1.1	17	325	30	29½	29⅞	+ 1
		RyanH 1.20		3.1	12	52	38⅝	38⅜	38⅝	− ⅛
		Ryder .66		1.6	15	5310	40⅛	38⅝	40⅛	+ ⅝
		Ryland .66		1.5	16	236	45	44⅛	44⅞	+ ⅞
		Rymer			21	14	20⅞	20⅝	20⅞	+ ¼
		Rymer pf1.17		8.4		7	13⅞	13⅞	13⅞	+ ¼

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
85¼	44⅛	Textrn pf1.80		3.2	10	1440	57¼			
71	48½	Textr pf2.08		3.4		4	61¾			
57	40¼	Textr pf1.40		2.8		4	50½			
12½	7¾	Thack			56	12	10⅛			
35⅜	15¼	ThrmE s			28	159	30⅞			
47	33½	ThmBet .52		3.5	20	384	44½			
28¾	15⅞	Thomln .68b		3.2	12	48	21⅝			
21	11⅞	ThmMed		2.0	17	368	19¾			
29⅞	18⅞	Thrifty .64		2.3	17	247	27⅞			
17⅞	5⅞	Tidwtr .20		3.0		108	6⅝			
9⅛	5⅞	Tigeris				6843	8⅞			
82⅛	51¾	Time 1		1.3	23	2100	76			
23⅞	13¾	Timplx			16	116	17⅞			

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
10¼	4½	WinterJ .05e		.6	20	2	8½	8¼	8¼	
51⅛	30¾	WiscEP 2.68		5.7	11	184	47½	47⅛	47¼	+ ¼
103	78	WisE pf8.90		8.9		z30	100½	100½	100½	− ½
100¾	66	WisE pf7.75		7.85		z100	99	99	99	
27⅜	23¼	WisG pf2.55		9.5		2	26¾	26¾	26¾	− ⅝
49¾	28⅝	WiscIpl 2.84		6.3	11	101	45½	45¼	45⅝	
49½	34⅞	WiscPS 2.86		6.0	11	56	47¾	47¼	47¾	+ ⅝
56⅝	33	Witco 1.48		2.9	12	483	50½	50¼	50¼	+ ⅛
14	9⅞	WolvrW .24		2.1	23	117	11¾	11½	11⅝	+ ⅛
83½	43⅜	Wolwth 2		2.5	14	583	82	80¼	80½	− 1½
41⅞	39⅞	Wolw wi				15	41⅛	40¼	40½	− ½
117	62⅞	Wolw pf2.20		1.9		1	114½	114½	114½	− 2½

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begins with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices, May 16

OVER-THE-COUNTER

Nasdaq national market, closing prices, May 16

Continued on Page 35

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Doubts about dollar's future

BY COLIN MILLHAM

Last week's strengthening of the dollar was largely the result of comments made by officials in Washington, Tokyo and Frankfurt. The Bank of Japan intervened from time to time, to nudge the dollar higher, while the US currency also gained support from Thursday's money supply figures, which appeared to rule out any early cut in US interest rates.

On Monday the dollar was at its weakest, falling below Y160 in Tokyo, but then recovering slowly in European trading, as the foreign exchanges awaited a speech on Tuesday by Mr James Baker, US Treasury Secretary. He told the Senate Finance Committee the Administration was concerned that because the US has no target for the dollar, it is assumed by the market that a further decline is desired.

It certainly has been assumed that the US is prepared to see a weaker dollar, to correct the trade imbalance with Japan, unless the Japanese Government is willing to boost economic growth, and encourage more imports from the US.

Mr Paul Volcker, chairman of the Federal Reserve Board, has long been known to be concerned about the weakness of the dollar. He also gave testimony before Congress on Tuesday, and his comments, coupled with those of Mr Baker, began to turn the dollar, leaving the market wondering whether the fall to Y150 was such a certainty after all.

On Wednesday Mr Malcolm Baldridge, US Commerce Secretary, told the Senate Banking Committee the dollar's fall had not been excessive. On the same day Mr Satoshi Sumita, Governor of the Bank of Japan, said that although the rise in the yen had been too fast, it should not do serious damage to the Japanese economy.

While not arguing with the comments of Mr Baker and Mr Volcker, the views of Mr Baldridge and Mr Sumita tended to encourage thoughts of a further weakening of the dollar.

But this was shortlived, and the dollar soon began to rise again. On Thursday Mr Karl Otto Poehl, president of the German Bundesbank, said that currency stability was urgently needed, and co-ordinated intervention by the central banks could sometimes be useful. Shortly after, Mr Yasuhiro Nakasone, the Japanese Prime Minister, was reported to have suggested the time was near for co-ordinated intervention.

Although the US Federal Reserve was not expected to join in any agreed intervention policy, the suggestion of joint action by West Germany and Japan was enough to lift the dollar.

This completed a week of conflicting statements and growing uncertainty about the dollar, but the final surge was provided by the weekly money supply figures. Dollar M1 was expected to rise by about $2bn, but increased by $6.1bn, and is now about $11bn above the target range. The Federal Open Market Committee meets tomorrow, and will obviously be concerned by the latest figure, particularly against a background of expected rising economic growth. Revised first quarter gross national product growth will be published tomorrow. The last figure suggested growth of 3.2 per cent, compared with forecasts of around 2 per cent, and the market will wait to see whether the figure is revised downwards. If it remains high, and growth increases in the second half of the year, the downward course of the dollar may be coming to an end.

£ IN NEW YORK

May 16	Close	Prev. close
£ Spot	$1.5156-1.5155	$1.5360-5370
1 month	0.43-0.42pm	0.44-0.42pm
3 months	1.17-1.15pm	1.23-1.18pm
12 months	3.45-3.37pm	3.66-3.50pm

Forward premiums and discounts apply to the U.S. dollar.

LIFFE LONG GILT FUTURES OPTIONS

[illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS

[illegible]

LIFFE £/$ OPTIONS

[illegible]

PHILADELPHIA SE £/$ OPTIONS

[illegible]

LIFFE—EURODOLLAR OPTIONS

[illegible]

LONDON

20-YEAR 12% NOTIONAL GILT; 10% NOTIONAL SHORT GILT; THREE-MONTH EURODOLLAR; FT-SE 100 INDEX; THREE-MONTH STERLING; US TREASURY BONDS

[illegible]

CHICAGO

US TREASURY BONDS (CBT); US TREASURY BILLS (IMM); THREE-MONTH EURODOLLAR (IMM); CERT. DEPOSIT (IMM)

[illegible]

CURRENCY FUTURES

POUND—$ (FOREIGN EXCHANGE); IMM—STERLING; LIFFE—STERLING

[illegible]

CURRENCY MOVEMENTS

May 16	Bank of England Index	Morgan Guaranty Change%
Sterling	76.0	−15.4
U.S. dollar	114.4	+5.0
Canadian dollar	79.0	−11.7
Austrian schilling	126.1	+7.1
Belgian franc	95.4	−7.3
Danish Krone	86.0	−1.0
Deutsche mark	134.9	+14.7
Swiss franc	157.6	+15.6
Guilder	124.8	+9.1
French franc	69.1	−13.4
Lira	46.3	−17.9
Yen	206.9	+54.0

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (base average 1975=100).

OTHER CURRENCIES

May 16	£	$
Arg'tina	1.2954-1.3106	0.8500-0.8510
Aus'alia	2.1095-2.1130	1.3840-1.3858
Brazil	20.98-21.11	13.77-13.84
Finland	7.7830-7.8030	5.1130-5.1160
Greece	208.93-211.46	137.41-140.29
H'kong	11.8975-11.9175	7.8100-7.8120
Iran	120.00*	78.20*
Kuwait	0.4405-0.4415	0.28850-0.28800
Lux'burg	68.75-68.85	45.05-45.15
Malaysia	[illegible]	[illegible]
N Zealand	[illegible]	[illegible]
Saudi Ar.	[illegible]	[illegible]
Sin'pore	[illegible]	[illegible]
S Af. (Cm)	[illegible]	[illegible]
S Af. (Fn)	[illegible]	[illegible]
U.A.E.	[illegible]	[illegible]

* Selling rate.

CURRENCY RATES

May 16	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.769869	0.637426
US $	6½	1.17328	0.971118
Canadian $	8.59	*	1.33606
Austria Sch	4	18.2822	15.1057
Belgian Fr	8½	53.0029	43.8873
Danish Kr	7	9.59450	7.95851
D'mark	3½	2.59565	2.14976
Guilder	4½	2.92675	2.42294
French Fr	9½	8.27632	6.85561
Lira	13	N/A	1474.40
Yen	[illegible]	[illegible]	[illegible]
Norway Kr	[illegible]	[illegible]	[illegible]
Span'h Pts	[illegible]	[illegible]	[illegible]
Swedish Kr	[illegible]	[illegible]	[illegible]
Swiss Fr	[illegible]	[illegible]	[illegible]
Greek Drch	[illegible]	[illegible]	[illegible]
Irish Punt	[illegible]	[illegible]	[illegible]

* CS/SDR rate for May 15: 1.62373.

POUND SPOT—FORWARD AGAINST POUND

[illegible]

Belgian rate is for convertible francs. Financial franc 69.30-69.40. Six-month forward dollar 2.11-2.04c pm. 12-month 3.52-3.47c pm.

DOLLAR SPOT—FORWARD AGAINST DOLLAR

[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 45.40-45.50.

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr per 10: Lira per 1,000: Belg Fr per 100.

FORWARD RATES AGAINST STERLING

	Spot	1-month	3-month	6-month	12-month
Dollar	1.5255	1.5212	1.5138	1.5048	1.4896
D-Mark	3.3725	3.3546	3.3287	3.2875	3.2191
French Franc	10.7450	10.7137	10.6549	10.6056	10.5174
Swiss Franc	2.8075	2.7927	2.7662	2.7317	2.6666
Japanese Yen	252.25	251.05	248.85	245.85	241.00

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu May 16	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	43.6761	43.8873	+0.48	+0.53	±1.5388
Danish Krone	7.91896	7.95831	+0.50	+0.55	±1.6408
German D-mark	2.13834	2.14976	+0.53	+0.58	±1.1202
French Franc	6.96280	6.85561	−1.54	−1.49	±1.3701
Dutch Guilder	2.40935	2.42294	+0.56	+0.61	±1.5081
Irish Punt	0.712956	0.707039	−0.83	−0.78	±1.6669
Italian Lira	1496.21	1474.40	−1.46	−1.46	±4.0788

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EURO-CURRENCY INTEREST RATES

May 16	Short term	7 Days notice	1 Month	Three Months	Six Months	One Year
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
U.S. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sw. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Deutschmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fr. Franc	7¼-7⅜	7⅛-7⅛	7⅛-7¼	[illegible]	[illegible]	[illegible]
Italian Lire	11-13	11¼-12¾	11⅛-12⅛	[illegible]	[illegible]	[illegible]
B.Fr.(Fin)	8⅜-8⅝	8-8¼	8-8¼	[illegible]	[illegible]	[illegible]
B.Fr.(Con)	8⅜-8⅝	8-8½	7⅞-8⅜	[illegible]	[illegible]	[illegible]
Yen	4½-5	4⅞-4½	4½-5	[illegible]	[illegible]	[illegible]
D. Krone	8-8¾	7¾-8¼	7⅝-8⅛	[illegible]	[illegible]	[illegible]
Asian $ (Sng)	7-7⅛	7-7⅛	7-7⅛	[illegible]	[illegible]	[illegible]

Long-term Eurodollars: two years 7⅝-7⅞ per cent; three years 7¾-8⅛ per cent; four years 8⅛-8⅜ per cent; five years 8⅜-8⅝ per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

MONEY MARKETS

Uncertain picture on rates

Interest rates stabilised on the London money markets last week, after an early decline when optimism was growing about an early cut in clearing bank base rates. On Monday three-month interbank fell to 10¼ per cent from 10 7/16 per cent, but then showed little change, closing at 10 5/16 per cent on Friday.

Credit conditions were generally quite comfortable, with the discount houses under no strong pressure to sell bills. Cheap money during the morning was taken up by the houses, moving any shortages outside the discount market. The houses were also reluctant to sell paper at existing Bank of England intervention rates, on hopes of lower base rates.

UK clearing bank base lending rate 10½ per cent since April 21

On Friday UK inflation fell to 3 per cent, the lowest for 18 years, keeping alive hopes of another cut in base rates, but the signals from the other side of the Atlantic were not so encouraging. The FOMC meets tomorrow, and after last week's money supply figures, will remain cautious about allowing a further decline in US interest rates.

Mr Karl Otto Poehl, president of the Bundesbank, also ruled out any early cut in West German interest rates while the D-mark remains technically weak within the European Monetary System.

NEW YORK

(4 pm)

Prime rate; Broker loan rate; Fed funds; Treasury Bills & Bonds: One month, Two month, Three month, Six month, One year, Two year, Three year, Four year, Five year, Seven year, 10 year, 30 year

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

	May 16	May 9		May 16	May 9
Bills on offer	£100m	£100m	Top Accepted rate of discount	9.8069%	9.9874%
Total of applications	£512m	£476m	Average rate of discount	9.8001%	9.9779%
Total allocated	£100m	£100m	Average yield	10.05%	10.23%
Minimum accepted bid	£97.565	£97.51m	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	84%	89%			

WEEKLY CHANGE IN WORLD INTEREST RATES

	May 16	change		May 16	change
LONDON			**NEW YORK**		
Base rates	10½	Unch'd	Prime rates	8½	Unch'd
7 day interbank	10 7/16	+ 1/16	Federal funds	6¾	Unch'd
3mth interbank	10 5/16	−¼	3 Mth. Treasury Bills	6.43	+0.16
Treasury Bill Tender	9.8001	−0.1778	6 Mth. Treasury Bills	6.56	+0.18
Band 1 Bills	10⅝	Unch'd	3 Mth. C D	6.81	+0.25
Band 2 Bills	10 7/16	Unch'd	**FRANKFURT**		
Band 3 Bills	10¼	Unch'd	Lombard	5.5	Unch'd
Band 4 Bills	10 3/16	Unch'd	One mth. interbank	4.675	Unch'd
3 Mth. Treasury Bills	9 25/32	− 3/32	Three month	4.575	+0.05
1 Mth. Bank Bills	10¼	− 1/16	**PARIS**		
3 Mth. Bank Bills	10	− 3/32	Intervention Rate	[illegible]	[illegible]
TOKYO			One mth. Interbank	[illegible]	[illegible]
One month Bills	4.53125	+0.25	Three month	[illegible]	[illegible]
Three month Bills	4.65625	Unch'd	**MILAN**		
BRUSSELS			One month	[illegible]	[illegible]
One month	[illegible]	[illegible]	Three month	[illegible]	[illegible]
Three month	[illegible]	[illegible]	**DUBLIN**		
AMSTERDAM			One month	[illegible]	[illegible]
One month	[illegible]	[illegible]	Three month	[illegible]	[illegible]
Three month	[illegible]	[illegible]			

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, band 3 bills 34 to 63 days and band 4 bills 64 to 91 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.

MONEY RATES

May 16	Over-night	One Month	Two Months	Three Months	Six Months	Lombard Int'v'tin
Frankfurt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.5
Paris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7¼
Zurich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—
Amsterdam	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—
Brussels	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9½-10

FT LONDON INTERBANK FIXING

(11.00 a.m. May 16)

Three months US dollars		Six months US dollars	
bid 7	Offer 7⅛	bid 7	Offer 7⅛

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

LONDON MONEY RATES

May 16	Over night	7 days notice	Month	Three Months	Six Months	One Year
Interbank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local Authority Deps	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local Author'y Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Mkt Depos.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Company Depos.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finance House Depos	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fine Trade Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dollar CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR Linked Depos	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU Depos	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Treasury Bills (sell): one-month 10⅛ per cent; three-months 9¾ per cent. Bank Bills (sell): one-month 10⅛-10⅛ per cent; three months 9⅞-9⅞ per cent. Treasury Bills: Average tender rate of discount 9.8001 per cent. ECGD Fixed Finance Scheme IV reference date April 2 to May 6 (inclusive) 10.627 per cent. Local authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 11½ per cent from May 1 1986. Bank Deposit Rate for sums at seven days' notice 5¾-6 per cent. Certificates of Tax Deposit (Series 6): Deposit £100,000 and over held under one month 10½ per cent; one-three month 10⅛ per cent; three-six months 10 per cent; six-nine months 9¾ per cent; nine-12 months 9⅝ per cent. Under £100,000 9⅝ per cent from May 14. Deposits held under Series 5 9⅝ per cent. Deposits withdrawn for cash 6 per cent.